Distr.
GENERAL

UNCTAD/PA/3
22 November 1993
ENGLISH ONLY

STANDING COMMITTEE ON POVERTY ALLEVIATION
Intergovernmental Group of Experts on
Poverty Alleviation
Geneva, 24 January 1994
Item 3 of the provisional agenda

MOBILIZATION OF DOMESTIC RESOURCES FOR POVERTY ALLEVIATION

Background note by the UNCTAD secretariat

GE.93-54357

CONTENTS

		Paragraphs
	INTRODUCTION	1 - 5
I.	**DOMESTIC SAVINGS MOBILIZATION AND EXPENDITURE BY THE PUBLIC SECTOR**	6 - 33
	A. Public sector mobilization efforts	6 - 17
	1. Fiscal measures	10 - 13
	2. Reforming the tax structure in favour of the poor	14 - 17
	B. Public expenditure	18 - 33
	1. Living standards under structural adjustment	18 - 20
	2. Intra-sectoral allocations	21 - 23
	3. Expenditure and outcomes	24 - 29
	4. Military expenditures	30 - 33
II.	**MOBILIZATION OF SAVINGS BY THE PRIVATE SECTOR**	34 - 78
	A. The banking system	39 - 40
	B. Rural development and poverty alleviation: access to sources of funds	41 - 72
	1. Commercial banks	51 - 54
	2. Specialized agricultural banks	55 - 59
	3. Cooperatives	60 - 62
	4. The informal sector	63 - 72
	C. Market-oriented approach to credit and savings for the poor	73 - 78
III.	**CONCLUDING REMARKS AND ISSUES FOR FURTHER DEBATE**	79 - 88

ANNEX Table: Selected quasi-informal financial arrangements for the poor

INTRODUCTION

1. Poverty alleviation and reduction require actions along various axes, which can be taken only if the necessary resources are available. Resources are needed for the delivery of social services for and to the poor, including provision of the social, economic and physical infrastructure for education, health, agricultural extension services, administration, roads and other forms of transport and communications. The general population and the poor, in particular, need access to resources in order to undertake various economic activities to support themselves, or invest in productive assets so as to ensure streams of incomes for themselves or their progeny. Household expenditures on food, medicines, education, shelter, and so on, for their children is just as much "development expenditure" as government outlays. Finally, resources are needed to support macro-economic and sectoral policies conducive to growth that could benefit the poor. If countries are to achieve high and sustained rates of economic development, it is necessary to mobilize domestic financial resources to sustain the required level of investments. While experiences show that an important condition for increasing capital accumulation is the development of human resources, there is no doubt that an inadequate rate of domestic saving can hamper the rate of capital formation and thus limit the potential for growth and development and thereby the scope for poverty alleviation and reduction.

2. This note focuses on domestic financial resource mobilization for poverty alleviation and reduction. Such mobilization calls for policies concerning both the public and the private sectors.

3. Following the introduction, section I concentrates on the public sector and the effects of budgetary policies on poverty alleviation. Aspects concerned with the linkages between public enterprise reform and poverty alleviation are not dealt with here, as they will be considered in the context of the effects of structural adjustment and job creation policies which constitute another substantive agenda item inscribed on the provisional agenda for the second session of UNCTAD's Standing Committee on Poverty Alleviation. In examining budgetary policies, both the revenue and expenditure side are discussed separately, including questions relating to reallocation of resources for poverty alleviation. On the revenue side, the linkages between restructuring tax systems (structure and administration) and their impact on poverty alleviation/income distribution are discussed. For example, in most developing countries, there is still considerable scope for increasing tax revenues through widening the tax base and more efficient tax collection, especially with respect to taxes on agricultural income, wealth and fringe benefits which represent a small proportion of GNP as compared with developed countries (see table 1). This table and those which follow have been included here only to show broad orders of magnitude. Furthermore, adjustment programmes introduced under the auspices of the Bretton Woods institutions advocate a reduction in marginal rates on individual income taxes, so as to increase compliance and reduce evasion. The resulting tax structures tend to be more regressive, with revenue-neutral results. On the expenditure side, an attempt is made to address this policy area from the viewpoint of the distribution of expenditure between the poor and non-poor.

Table 1

Taxes on income, profits and capital gains as percentage of GDP

	1981	1982	1983	1984	1985	1986
World	12.46	12.26	11.51	11.43	11.82	11.69
Industrial countries	13.99	13.78	12.89	12.83	13.25	13.16
Developing countries	5.50	5.37	5.24	5.08	5.33	5.07

Source: IMF, Government Finance Statistics Yearbook 1989, quoted in C. Somel "The State in Economic Activity : Problems of Economic Policy-making". UNCTAD Discussion Papers No.67, September 1993, Geneva.

4. Section II deals with the mobilization of resources in the private sector. A key issue in this respect is better financial intermediation. Many countries are actively pursuing programmes for increasing household savings, particularly among the rural population where most of the poor are located, and for improving the availability of private credit through better financial intermediation, restructuring of the banking sector, and better linkages between formal and informal financial sectors.

5. Concluding remarks and issues for further debate are presented in section III.

I. DOMESTIC SAVINGS MOBILIZATION AND EXPENDITURE BY THE PUBLIC SECTOR

A. Public sector mobilization efforts

6. Public-sector mobilization efforts affect both the prospect for further economic growth and the scope for general and targeted programmes for the poor. Such efforts involve both raising the rate of saving and ensuring that available resources are used efficiently and ultimately benefit the poor. Public savings, in the narrow sense, are defined as the excess of current revenues over current expenditures in annual budgets. The two factors which, in varying degrees, in most developing countries depress the contribution of the public sector to domestic savings are pressures on governments to increase current expenditures from year to year, and the political and administrative difficulties of raising tax revenues.

7. On average, government savings account for a modest 25 per cent of total savings, or about 2 to 3 per cent of GDP in most developing countries, but there is a wide range of inter-country variations. For the size of the public sector, savings can vary with the structure of the economy, the fiscal system and use of fiscal techniques, and the underlying socio-political structure in the country. Regional averages of general government expenditures and revenues as a percentage of GDP are presented in table 2.

Table 2

Average general government expenditures and revenue as percentage of GDP for 1981-1987[a]

	T. Exp.	T. Rev.	Tax Rev.	Inc. Tax	G. Tax
World	30.79	35.60	29.85	11.86	7.18
Industrial countries	31.73	37.83	32.30	13.39	6.92
Developing countries	27.26	26.63	19.67	5.27	8.37
Africa	24.80	26.68	21.51	10.68	7.29
Asia	21.73	20.73	16.51	4.91	7.80
Europe	30.37	41.32	32.13	6.22	9.18
Middle East	36.81	31.76	14.58	8.34	5.23
Western Hemisphere	27.30	24.47	19.61	3.75	9.33
Oil-export.countries	25.65	25.50	12.76	13.51	2.25
Non-oil-exporting developing countries	27.69	26.90	21.50	4.77	8.87

Source:
Calculated from IMF, Government Finance Statistics Yearbook 1989, quoted in C. Somel "The State in Economic Activity: Problems of Economic Policy-making". UNCTAD Discussion Papers No. 67, September 1993.

a: Averages for world, developing countries, Africa, Asia, Middle East, oil-exporting countries and non-oil-exporting developing countries cover 1981-1986; averages for the Western Hemisphere cover 1981-1984.

Abbreviations:
T. Exp. : Total general government expenditure plus lending minus repayment.
T. Rev. : General government revenue.
Tax Rev.: General government tax revenue.
Inc.Tax : General government taxes on income, profits and capital gains.
G. Tax : Domestic taxes on goods and services.

8. In many developing countries where the tax base is shallow and inelastic, Governments depend on seigniorage to fill up the revenue shortfall. Such a money-creating alternative to borrowing from the banking system may have undesirable consequences on private savings' habits and propensities and the distribution of income.

9. There is an often expressed point of view that in many developing countries, Governments may be able to contribute additional savings by holding back current expenditures on production and consumption of goods that have little economic rationale, and by eliminating unnecessary subsidies and weeding out other low-productivity non-developmental expenditures. Another aspect of public sector performance believed to warrant particular scrutiny is the public enterprise which constitutes a drain on government resources if administered prices are below cost, control is bureaucratic and there is political pressure.

1. Fiscal measures

10. Fiscal policies may affect the distribution of income either in favour of or against the poor. In many cases, however, particularly in countries with low per capita income, weak administration, and social attitudes not always conducive to tax compliance, the urgent task is to improve tax performance. This proves to be difficult in many developing countries, where the tax system is unnecessarily complex and cumbersome and relatively inelastic with respect to income levels and changes in income. Simpler tax systems could in themselves help improve collection and compliance standards. Beyond this, Governments need the political will and capacity to override powerful vested interests and to arrest any erosion of the tax base through evasion and corruption.

11. Improved resource mobilization efforts of Governments are reflected in rising tax/GDP ratios. In some developing countries, particularly Asia (the Republic of Korea, Sri Lanka, Bangladesh, Nepal and Pakistan), Governments have made considerable improvements in tax collection efforts.[1]

12. Many developing countries, particularly the least developed countries (LDCs), generate the bulk of domestic revenue through taxes.[2] International trade (import tariffs and export taxes on agricultural commodities) account for an important share of tax revenue, particularly in sub-Saharan Africa (for example, over 75 per cent in the Gambia and in Uganda). This dependence often renders the budget of these countries highly vulnerable to fluctuations in international trade and commodity prices, with consequent instability of revenue generation. Moreover, structural adjustment programmes and stabilization policies usually include the lowering of tariffs and phasing out of export taxes, often (although not always) resulting in a significant loss of revenue as usually there are no feasible immediate alternatives to taxes on international trade.

13. To counter this decline in revenues from taxes on international trade, many countries have carried out reforms of the tax structure involving both direct and indirect taxes. In developing countries, indirect taxes are predominant because they are easier to collect.[3] Emphasis has been in moving away from production taxes (regarded as distortional) to consumption taxes (considered to be less distortional). In recent years, many countries have enhanced revenues from direct taxes on income and wealth, both personal and corporate. In the LDCs, for instance, these taxes currently contribute between 25 per cent and 30 per cent of tax revenues. In many of them, governments have begun to emphasize better collection and administration of income taxes, revenues from which rose in the second half of the 1980s.

2. Reforming the tax structure in favour of the poor

14. Central government taxes on personal income and household expenditure affect the distribution of incomes received by people. A tax system can redistribute personal income in an absolute sense by taking absolutely larger amounts from the better-off than from the poorer members of the population, provided the benefits arising from government spending of tax revenue are not distributed according to the amount paid in taxes.[4] In effect, sometimes

taxes reduce incomes, rather than allocate them, since there is little or nothing in the way of cash transfers (negative taxes) to assist people in the lowest income groups. By income redistribution, therefore, one normally means, taking relatively more from the rich by progressive taxation, since even proportional taxes will not reduce the degree of income inequality, everybody being left, say, with 10 per cent less disposable income with a proportional income tax of 10 per cent.

15. Many of the poorer countries have direct taxation concentrating on the formal sector. In general, these taxes are regressive, accompanied by greater evasion of the more progressive tax by higher income groups. The incidence of indirect taxes is also regressive, at least as between different income groups in the main towns, for instance between the poorest households in the lower income brackets compared with those in the higher income brackets.[5]

16. From an equity point of view, progressive direct taxes are preferred over indirect taxes but from the point of view of increasing savings, it is not clear as to which type of taxes is to be preferred. If the demand for a product on which a sales tax has been levied is price-elastic, then indirect taxes are likely to reduce consumption and increase savings. However, if demand is price-inelastic then private savings could decrease, offsetting any increase in government savings. Direct taxes are paid for out of income. An increase in direct taxes on businesses is said to decrease business savings and also reduce incentives to invest and hence lower the mobilization of resources by the private sector; however, this could be offset by an increase of government investment.

17. Tax reform, particularly through reducing tax avoidance and tax evasion by closing loopholes and simplifying procedures, can raise extra resources for the social sectors. According to the United Nations Development Programme's *Human Development Report, 1991*, Ghana and Jamaica have raised their tax revenue considerably through their improved tax collection. In some cases, countries have introduced special taxes to finance social expenditure. Brazil, for instance, has created a special fund for its programmes in health, nutrition and education and for the support of small-scale farmers, financed by a 0.5 per cent surtax on sales and a 5 per cent surcharge on corporate income tax. Pakistan levied a 5 per cent surcharge on its imports to finance high priority projects in education. Extra taxes can also be levied on luxury items.

B. Public expenditure

1. Living standards under structural adjustment

18. During the late 1970s and early 1980s, large imbalances developed in the current accounts of many developing countries; these were exacerbated by the collapse in commercial bank lending and huge debt servicing burdens throughout the 1980s, with Latin America and sub-Saharan Africa particularly adversely affected. These difficulties necessitated major adjustments, with many countries turning to the IMF and the World Bank, first for stabilization programmes but later also for structural adjustment programmes. However, at least initially, design and implementation of these stabilization and structural adjustment policies, paid very little attention to the social costs of adjustment and reforms.

19. In general, adjustment involved demand-reducing measures. The resulting unemployment or decline in real wages has hurt the poor more because they lack accumulated savings, access to credit and safety nets. Moreover, the reduction in expenditure on subsidies has often undermined their consumption[6] and those on health and education have affected their current welfare and future human capital. The overall impact of policies in individual countries has, however, varied depending on the nature and intensity of adjustment measures required, the depth and structure of poverty, inequality and vulnerability and the way adjustment policies have been designed.

20. Concern has been expressed that the poor and the vulnerable were particularly adversely affected in many countries during the first half of the 1980s, often with falling daily per capita calorie intake, rising incidence of infant mortality and malnutrition, and decline or slow-down of primary school enrolment. Overall, the economic crisis and the ensuing adjustment programmes in the 1980s are estimated to have imposed a heavy cost on the poor and other vulnerable groups such as women and children. The recognition of this heavy cost has led to the consideration of measures that could mitigate these costs as an integral part of structural adjustment programmes. (See Social Funds and Safety Nets, document UNCTAD/PA/2).[7]

2. Intra-sectoral allocations

21. Intra-sectoral allocations have a profound impact on the welfare of the poor. Table 3 shows comparative regional averages of government expenditure on main sectors as percentage of GDP. In the education sector, the issue is the competition between primary and higher schooling. In the case of health and related services, the important distinction is largely between primary health care and more expensive hospital-based curative medicine. Primary health care facilities are more beneficial to the poor than expensive hospitals which tend to benefit a few; cheaper or free universal education is preferable to highly subsidized university education that reaches a small proportion of the population.

Table 3

Average general government expenditure item as percentage as percentage of GDP for 1981-1987[a]

	Education	Health	SSWHCA[b]	Agriculture	Defence
World	4.91	4.77	11.99	0.93	4.11
Industrial countries	5.04	5.18	12.70	0.79	4.39
Developing countries	3.67	1.59	4.71	2.12	2.96
Africa	5.04	2.06	2.98	3.44	...
Asia	3.21	0.85	1.53	2.70	3.49
Europe	3.29	3.56	9.98	1.98	2.84
Middle East	5.06	1.84	6.87	1.46	6.31
Western Hemisphere	4.18	1.67	9.43	0.30	1.11
Oil-exporting countries	3.47	1.16	0.43	1.47	3.28
Non-oil-exporting developing countries	3.71	1.66	5.30	2.23	2.87

Source:
Calculated from IMF, Government Finance statistics Yearbook, 1989, quoted from C. Somel, op. cit.

a: Percentage of world, developing countries, Asia, Western Hemisphere, oil-exporting countries and non-oil exporting countries for education, health, social security and agriculture cover 1981-1986. Percentages of Africa for education, health and agriculture cover 1981-1982, and for social security, etc., only 1981.

b: Social security, welfare and housing, and community amenities.

22. The evidence from most developing areas, is that secondary education and hospital-based health care have been receiving considerably higher levels of

government financial support than primary education and primary health care. For example, a recent study[8] indicated that primary education received an average of only 43.7 per cent of the recurrent expenditure allocated to education in 1983 among 32 African countries. In only 7 of these countries did the share exceed 50 per cent. As regards health, existing evidence suggests that despite the costs of curative services being far greater than community-based public health services, most countries allocate a majority of their health budgets to hospitals and non-essential drugs used by the better-off households rather than to the more basic and cost-effective health services required by the poor. For example, in Malawi, only 6.8 per cent of total health spending was allocated to preventive services in 1987-88.[9] In Madagascar, only 27.1 per cent of the 1987 health budget was for primary health care and endemic disease control.[10] Similarly, data for Ghana indicate that most of the health budget is allocated to curative services for the urban population. Even in Tanzania, often viewed as a socially progressive nation, the share of the health budget allocated to prevention is only 5.9 per cent, with 68 per cent directed towards hospital services.

23. It is in this context that one must consider to what extent reductions and stagnation in social expenditures will directly harm the poor and, more important, whether policy reform can in fact correct the inequities in the allocation of government social expenditures. The *Human Development Report, 1991*, estimated that social expenditures needed 25 to 30 per cent of the total development allocations to maintain a proper balance between economic and social progress. Many developing countries still fall short of this level. This is particularly more serious in those countries that have a legacy of neglect of the social sectors.

3. Expenditure and outcomes

24. Implicit in the concern over low levels of social sector spending is the assumption of a strong and positive relationship between government spending, especially in the social sector, and welfare outcomes, particularly in terms of health status and educational achievements. The corollary of this expected relationship is that declining government spending will be harmful to the poor, and conversely, increases will be beneficial. This implied association is rather complicated. Several caveats weaken this relation between government spending and desired outcomes.

25. Experience shows that first, as with most other subsidies, health and education subsidies are rationed, thus a large number of potential users do not have access to them. Secondly, in general, a disproportionate share of the rationed social service subsidies has been allocated to urban areas and better-off households. Consequently, private sector systems have already emerged for the rich as well as for the poor. The few budget surveys that are available clearly show that the poor are often served by charities and privately run institutions, whether they be the catholic-run health posts, as in Senegal, or the village traditional healers. Government-run programmes are either absent or often of such low quality as to discourage utilization.[11] Furthermore, households often find the means to pay for services that they value.

26. Another important point is that in addition to being rationed, publicly provided social services are often of poor quality, reflecting a vain attempt to stretch an inadequate budget. This low quality of service is partially due to inadequate recurrent expenditures that long predated adjustment programmes and which, even under the most optimistic growth and external financing scenarios, will not go away in many countries in the years to come.

27. Moreover, in addition to the fiscal crisis, poor management and unqualified personnel have often exacerbated the problem. For example, in the wake of the need for fiscal restraint, cuts have tended to be concentrated in non-wage items, given the political liabilities involved in laying off workers. The diminished efficacy of health workers without supplies, however, and the consequent impact on service delivery may be greater than if expenditure reductions had been across-the-board, instead of exclusively protecting civil servants.

28. In many cases, moving to a system of cost recovery will likely have advantages for the poor. This is because if the non-poor can be made to pay for the services received, even if some of the poor have to contribute, it affords the opportunity for vastly increasing revenues. This step would enable Governments to expand services and improve their quality. Furthermore, it should be emphasized that the major barriers to the poor's use of public services is usually not high monetary cost but rather unavailability and inaccessibility (in terms of remoteness, unawareness, creditworthiness, etc.). Currently, the poor pay the costs either in the form of foregone wages, owing to illness, or of payment for private-sector services in the absence of public-sector options. It is also the case that user fees would potentially provide the necessary funds to finance expenditures with large externalities, such as immunizations and AIDs control, that deserve to be subsidized and will likely benefit more than proportionately the poor. A caveat is that the poorest of the poor, if faced with user charges, will not seek help until the ailment is far advanced.

29. The above points indicate that understanding the dynamics and implications of allocative decisions requires resorting to detailed case studies, something that goes beyond the scope of this background document. Nonetheless, the composition of inputs provided by social-sector spending should be accorded greater scrutiny, and thus lead to further rationalization to ensure that maximum returns, as measured in terms of social indicators, are realized.

4. Military expenditures

30. In order to enhance economic and social progress during the 1990s, developing country governments must make maximum use of the human, financial and material resources at their disposal. Although, as a group, developing countries do not seem to allocate to defence a larger proportion of their total government expenditures than developed countries (table 4), a consensus is spreading among developing countries - on the part of the military as well as civilians - that many developing countries' military expenditures/ establishments are too large and costly to maintain and that most could be reduced in size without compromising security. Resources released thereby could be used to contribute to poverty alleviation and reduction.

Table 4

Central government expenditure on defence as percentage of GDP

	1981	1982	1983	1984	1985	1986	1987
World	3.77	4.06	4.21	4.11	4.22	4.29	4.11
Industrial countries	3.95	4.30	4.52	4.41	4.53	4.60	4.41
Developing countries	3.04	3.05	2.94	2.89	2.95	3.01	2.84
Africa	...	...	...	...	...	...	...
Asia	3.53	3.53	3.42	3.36	3.48	3.62	3.49
Europe	3.11	2.93	2.77	2.62	2.76	...	...
Middle East	6.49	6.18	5.92	6.10	6.49	6.68	...
Western Hemisphere	1.08	1.26	1.24	1.12	1.03	1.06	1.00
Oil-exporting countries	3.50	3.32	3.19	3.10	3.20	3.38	...
Non-oil-exporting developing countries	2.90	2.96	2.86	2.82	2.87	2.90	2.77

Source: IMF, Government Financial Statistics Yearbook, 1989; quoted from C. Somel, op.cit.

31. The challenge confronting developing countries is to achieve adequate levels of security at the lowest possible cost in order to increase the resources available for development purposes. Although it is up to developing country Governments to determine how much security they need and how to configure their military forces, the international community can play an important supporting role in the military reform process. In order to decrease the economic and political burden of the military sector, developing country Governments and the members of the international community might explore the opportunities for collaborative efforts in the following four areas: (a) reducing military expenditures; (b) controlling the procurement and internal trade in arms; (c) restructuring armed forces on the basis of true requirements; and (d) supporting disarmament and demobilization.

32. It is difficult to obtain an accurate accounting of military spending because of the secrecy with which many Governments surround their military budgets and the high degree of off-budget financing prevalent in developing countries. Although many developing country Governments are implementing programmes to improve transparency and accountability in the security sector, in most countries very little information about levels of expenditure, size and composition of forces, or equipment procured is made public.

33. Available information indicates that during the 1980s, nearly 5 per cent of Africa's gross national product was allocated to the security sector, making this region one of the highest spending in the world for military purposes. South Asia was second, with 3.6 per cent of GDP spent on the military; Latin America spent 1.6 per cent of GNP on it.[12] (See also table 4). This is particularly unfortunate, as the development indicators juxtaposed along-side military expenditures indicate that Africa spends more on the military than the other regions whereas Africa compares quite unfavourably with other regions in the development indicators. Data for expenditure from 1990 onwards are scanty, but fiscal constraints and the success of some conflict resolution efforts suggest that the security sector may have absorbed fewer resources in recent years.

II. MOBILIZATION OF SAVINGS BY THE PRIVATE SECTOR

34. Corporate savings tend to be limited in many developing countries, especially the low-income countries, because of the smallness of this sector, reflecting the stages of development in these economies. The bulk of savings in such countries is held by the non-corporate sector: households and unincorporated businesses. Therefore, it might be desirable that households be encouraged to hold the major part of their savings in the form of financial assets, and to replace direct, personal and informal credit transactions by indirect, formal credit arrangements.

35. In export-oriented economies, the growth of exports may have a positive influence on domestic savings, particularly corporate savings. In this regard, appropriate instruments would need to be put in place without negating the objectives of structural reforms.

36. Enhancing the contribution of the various compulsory contractual savings schemes (insurance, provident funds, etc.) can be a means to augment resources available for the social sectors. This path, however, can reduce the funds available for private savings, if returns are inadequate, which has often been the case.

37. Provision of credit to rural people and the micro-enterprise sector is one of the most important factors in inducing these people to save. This relationship needs to be examined in detail empirically in the individual countries or communities. Rural savings and finance can be shown to be influenced by income, wealth, land tenure, external resources, taxation, demography, price levels, rural market structure, technology and, last but not least, rural credit. The relative importance of these factors vary from country to country. IFAD has found that credit is more effective than other types of financing in channelling resources to the rural poor.[13]

38. The possibilities of domestic resource mobilization and the manner of raising these resources differ according to country. The newly industrializing countries and some medium-income countries which have maintained relatively high rates of income growth have generally made considerable efforts to follow policies that benefit the private sector and have allowed market mechanism to assert a relatively strong influence in allocating resources and determining prices of goods, services and factors of production.[14] Most of the shortcomings in domestic resource mobilization apply largely to low-income countries characterized by heavy reliance on the agricultural sector, slow employment expansion, extreme poverty, and inefficient financial intermediation and to some middle-income, medium-growth countries that are largely primary-product exporters.

A. The banking system

39. As stated above, the main issues concern problems of access to credit by the poor: barriers to the delivery of financial services to the poor; credit, savings and the informal sector; interest rates and credit rationing. Also, there is a need to examine such issues as: ability of the poor to obtain unsubsidized credit; ability of the poor to pay for financial services; ability of the poor to save and have access to small loans.

40. Whatever the technical intricacies, it is useful to bear in mind that the banking and financial sectors, by their very nature, facilitate the mobilization of resource transfers from sectors capable of generating a "surplus". Access to these funds for productive purposes is a different issue.

B. Rural development, and poverty alleviation: access to sources of funds

41. Successful initiatives for the mobilization of resources are those that effectively target the poor. But targeting benefits to the poor requires familiarity with their needs and being able to develop a service or product that meets local demand. For example, lack of credit has been identified as one of the limiting factors in agricultural, industrial and commercial modernization of rural areas. All avenues for increasing the flow of credit to the rural poor need to be explored. The conditions of the poor in rural areas demand an injection of bank credits in adequate amounts and on favourable terms to quicken effectively the pace of growth and development.[15]

42. Often, existing financial markets and institutions have been perceived to be inadequate to meet the financial requirements for agricultural development and the savings capacity of small farmers regarded to be negligible by policy-makers. The principal sources of funds for agriculture in rural areas include the commercial banks, the specialized national credit and development institutions, cooperatives and the informal sector. An additional source in many countries is remittances from urban areas.

43. Improvements in the rural banking sector can effectively contribute in: encouraging banking habits among the rural population; mobilizing savings from the rural areas for the purpose of channelling some to profitable ventures; and, the development of agriculture and agro-related industries.

44. Most relevant for the poor are informal credit markets, small farm credit programmes, traditional lenders and credit programmes as well as the institutionalization of the informal sector (see table in annex). There is a need to examine these factors.

45. Analysing progress that has been achieved by policies and programmes for input supply, rural savings and credit facilities to small farmers, livestock producers and specific vulnerable groups such as women and searching for potential solutions to improve access to and use of credit by the rural poor is very important. Until the early 1980s, in most developing countries, these policies and programmes in the agricultural area had focused mainly on public intervention to fix product prices, create cooperative structures and establish monopoly commodity marketing and input supply and distribution systems. They had been based on the need to provide the major inputs - mineral fertilizers, improved seeds and agrochemicals at lowest cost so as to encourage greater use of the inputs. Extensive use was made of parastatal and cooperative enterprises for input distribution. The provision of large subsidies by the State became an important instrument for sustaining the operations of institutions which supplied the inputs at very low cost to the farmer. The experience with this approach offers clear lessons. One is that large-scale and across-the-board subsidies do not necessarily improve poor people's access to credit or savings. Another is that subsidised credit, without incentives and infrastructure is likely to remain a permanent debt burden as borrowers have limited options for productive investments.

46. At the same time, certain Governments have pursued a top-down approach to rural finance, the objective being to improve the availability of agricultural credit services to small farmers, livestock producers and other specific, vulnerable groups, including women. The main policy instrument employed to attain this goal has been the creation of government-owned agricultural credit banks (agricultural cooperatives and development banks) financed mainly from external aid programmes (but also from budgetary/Central Bank resources), targeted to specific farmer groups, and applying fixed, subsidized interest rates. Another instrument has been the integration of agricultural credit into rural development projects.

47. The operations of these government-owned credit institutions or of the commercial banks have not always contributed to the building of viable financial institutions for the poor. Low product prices, lack of appropriate technological packages, lack of marketing including input services and infrastructure and

Governments' insistence that the interest charged by the banks be kept low, have all been major constraints to developing effective agricultural credit programmes. Under these circumstances, formal financial institutions have not reached mainly poor people. It is estimated that, in Africa, formal institutions have not reached more than 10 per cent of poor farmers, the majority of whom must still depend upon the informal financial market in some regions.[16]

48. Similarly, bureaucratic procedures, inefficient management, long delays in processing loan applications and high marketing margins have often made the monopoly parastatals and cooperatives ineffective mechanisms for input distribution or the promotion of new technologies for small farmers, livestock producers, and also women.

49. Many countries are handicapped by a dearth of information based on concrete analysis of case studies to guide policy decisions on the relative roles to be given to public and private sectors in input supply and credit to small farmers. Timely access to supplies by distributors, incentive prices that cover essential costs, availability of credit for financing input supply and distribution, suitable marketing and transportation infrastructure and timely ordering and scheduling of input supplies and deliveries are also critical requirements for an efficient input distribution system.

50. This experience, along with pressure from international financing agencies has, in recent years, sparked the need for change in policies and programmes for input supply and rural finance. The period since 1985 or later has, therefore, seen many countries experimenting with new ideas in this regard. Many countries are now pursuing a bottom-up approach to rural finance and credit to small farmers, livestock raisers and women which focuses on savings mobilization, a demand-led finance policy and viability of the institutions.

1. Commercial banks

51. Commercial bank lending in developing countries has tended to cluster in urban conglomerations, concentrating on funding large farming enterprises, consumer-based industries and the foreign trade sector. For instance, in 1979, only 494 bank branches operated throughout Nigeria; and more than 100 were located in Lagos.[17] In Madagascar, 85 per cent of the total volume of credit granted by the four existing banks in 1975 was earmarked for foreign-owned undertakings well integrated into the external economy. Credit to trade was larger than credit extended for the production and processing of agricultural products - the former being 37.1 per cent and the latter merely 29.1 per cent of total credit volume.[18] In Ghana, the commercial banks which mobilize nearly all the available savings in the country devote less than 13 per cent of their total loans to agriculture, and nearly all of this is taken up by relatively large commercial farmers.[19] In general, very little credit gets to the peasant in the rural areas. The commercial banking systems in Tanzania and Zambia deploy a large share of their credit portfolio for financing large-scale agricultural undertakings. In many countries, direct participation in agricultural credit by the commercial banking system is limited. During the 1970s and 1980s, in Ethiopia, for example, the Commercial Bank of Ethiopia's lending to agriculture stagnated as the burden of meeting the seasonal and investment credit needs of State farms and peasant cooperatives was shifted to the Agricultural and Industrial Development Bank. In Kenya, commercial banks actually direct funds (30 per cent of gross domestic product)[20] from rural to urban areas, depriving agriculture of one of the major ingredients for sustained economic growth. The opportunity to lend to large creditworthy clients in the towns leaves them no incentive to tackle the much harder job of getting credit to small-scale farms.[21] Unfortunately, particularly for the bulk of the developing African countries, the potential for using their network of bank branches to finance small-holder agriculture has not been effectively harnessed.

52. This is in contrast to the experience on the Indian sub-continent, where the State Bank of India (the largest commercial bank) was the pioneer in financing small-holder agriculture to an appreciable degree. Besides opening branches in rural areas on a large scale, commercial banks have set up

specialized branches. The aim of the specialized branches (Agricultural Development Branches) is to finance agricultural development and not merely agriculture. The focus of an Agricultural Development Branch, which in the initial years dealt with agricultural credit, was modified in May 1976 to include cottage and small agro-based industries, artisans engaged in rural arts and crafts and small units devoted to repairs and rural trade.

53. Apart from these specialized branches, almost all commercial banks have launched a village adoption scheme. The scheme, with its emphasis on an area-by-area approach, was first conceived by the State Bank of India in 1969 and represented a reaction to scattered lending. The initial effort to intensify agricultural lending on an area basis later gave way to the "adopted village" concept, encompassing schemes of development that covered the entire gamut of economic activities in a village. The attractiveness of the scheme to a bank lay in the easy assessment of financial needs, lower costs of operation, better supervision, better deployment of staff and transport, easier and better recovery, avoidance of duplication of financing, better coordination between bank and development agencies, and a build-up of rapport between bank and client.[22]

54. Overall, it is clear that formal financial institutions are suited to meet the demand for large and long-term credit because of their reliance upon the pooling of funds from deposits and maturity transformation. Moreover, in their operations they can also exploit economies of scale and of scope. Their structure is conducive to meeting the financial needs of larger industrial and commercial units, as well as those of affluent households, but they are not suitable for providing financial services to small farmers, small-scale entrepreneurs and the poor.

2. Specialized agricultural banks

55. Specialized agricultural banks have distinctive functions and requirements which include the supervision of the productive activities of their clientele, a rigorous project-appraisal exercise, different performance criteria and different skill requirements for their staff. They rely heavily on foreign loans and government contributions. They are financial intermediaries in the very restricted sense that they extend credit but rarely mobilize savings. They face a number of problems, starting with non-performing loans. Moreover, their fixed interest rates barely cover their average operating costs; these rates are rarely revised to allow for prevailing levels of inflation. As a result, the purchasing power of their portfolios tends to diminish. Their operating costs, including non-repayment or default, may run high as a proportion of total outstanding loans per annum. The high operating cost and the woefully slow loan recovery cycle erodes their capital base for onward lending to a diversified set of customers.[23]

56. In some cases, debt service and amortization consume large portions of any new resources allocated. This reduces the sums available for new lending to farmers. The banks are obliged to service their foreign debts in the currencies in which the debts are denominated. Since depreciation of the local currency will immediately raise the local currency value of debts denominated in foreign currency, foreign exchange risks are associated with the foreign currency debts of rural banks.

57. Thus it appears that, like the commercial banking system, the specialized agricultural banks have not, in general, had an appreciable impact on smallholder agriculture.[24] Loans are usually channelled to big commercial farmers while the small unmechanized, rain-fed agricultural operations tend to be neglected. The operational effectiveness of these development banks is often undermined by their failure to consider the views and interests of their intended clientele. More often than not, the board of directors of agricultural banks do not comprise any representatives of the farming community which the banks are designed to serve. In the majority of cases, the members of banks' boards of directors are primarily well-established businessmen, industrialists and officials from development ministries which may have subscribed to the banks' share capital. Hence their

main preoccupation may not necessarily be a concern for the distributional effects of their policies.

58. Statistical comparison of the performance of development banks is hindered by the paucity of the data base. Very few countries provide information on loans classified by the type of farmer, size of the loan, duration, size of farms and type of project. Development banks tend to be wary of risk, and few are operationally aggressive. They are basically retailers of state loan funds or channels for official development grants but rarely mobilize domestic resources.[25]

59. Attempts to improve the lot of the agricultural small-holders have been made in some countries. The Ghana Agricultural Development Bank, for instance, has put in place the "Group Lending Programme" to suit the credit needs of small-scale farmers. Currently, the Bank has as many as 19 credit schemes, of which six are for food crops while the remaining 13 are for industrial crops. In the early 1980s, a total of 354,000 farmers or 15.7 per cent of Ghana's small-scale farming population had been reached.[26] The "Caisse Nationale de credit agricole" in Morocco became a relatively efficient lender to small farmers largely through the application of a number of organizational innovations. Credit to small farmers has primarily been issued for cereal production and livestock fattening. In 1977, some 67 per cent of the 323,830 borrowers from the Caisse, holding 24 per cent of its loan amounts outstanding, were identified as small farmers.[27] In Malawi, the Group Credit Scheme has supported improved crop production, increased small farmers' coverage at reduced costs and achieved excellent repayment performance.

3. Cooperatives

60. With rare exceptions, the cooperative movement, which was intended to spearhead a process of rural transformation, has been unsuccessful. It has not been associated with desired increases in rural incomes. In Tanzania, where there is a strong government commitment to the cooperative system of production, past years had witnessed continuing declines in output and hence incomes.[28] In Ghana, where successive governments since 1966 had concentrated their efforts on creating an effective cooperative system, the income of the rural people worsened by 15 per cent between 1970 and 1983. Available data on Ghana also indicated that the productivity of cooperatives is less than that of individually owned farms.[29] An ILO study on cooperatives also concluded that they were seldom successful in motivating and mobilizing their membership.[30]

61. In many cases, the motivation for joining cooperatives is not purely to engage in more productive work. A study prepared for ECA showed that, in Guinea, members of cooperatives were "less motivated by collective work than a preoccupation to get benefits".[31] In Mozambique, where there is an acute shortage of producers' and consumers' goods and where such supplies are controlled by government, the main reason for joining cooperatives is "to legitimize one's demands for such goods". In Tanzania, a major reason for joining is "to get government-promised goods". It can, therefore, be concluded that desire for generous government resources can be a motivation for joining cooperatives.

62. Some of the problems that seem to be widely prevalent in cooperatives and which make them inefficient, in general, and for the poor, in particular, are: (a) a hasty launching of cooperatives, usually before the members understand them; (b) an inexperienced management; (c) units that cannot support themselves financially; (d) a lack of supporting infrastructure, including training and financial facilities, extension services, legislation, etc.; (e) top-down politico-bureaucratic channels, and (f) lack of incentives.

4. The informal sector

63. The above shows that, in general, the structure of formal institutions is inadequate to provide financial services for small farmers, small-scale entrepreneurs and the poor. A promising approach to resource mobilization by

the private sector is based on a different premise. Instead of focusing on traditional financial intermediation, it would focus on removing other barriers to resource mobilization by and for the poor. These barriers include, for example, insurmountable collateral requirements, adverse selection, and low levels of literacy and numeracy among the poor that constrain their access to formal sectors. Saving institutions are both informal and quasi-formal.

64. Informal finance includes: family and friends who provide most of the savings facilities and loans to the poor; money-lenders; pawn-brokers; and saving and loan associations. Informal financial agents, for example, know their clients better than formal banks do which reduces information costs; but despite their popularity and potential, most of informal finance has limitations. They are segmented from larger markets which reduces competition and limits their ability to mobilize resources.

65. Quasi-formal alternatives may give greater scope for expansion. Over the past 10 to 15 years, a number of quasi-formal programmes, such as the Grameen Bank in Bangladesh and the Badan Kredit Kecamatau in Indonesia have provided poor people with access to financial services and therefore facilitated resource mobilization. A list of such 16 savings and credit institutions in ten countries is annexed. Certain characteristics of the quasi-formal finance seem to appeal to poor people:

(a) Low transaction costs;
(b) Immediacy of deposit and disbursement;
(c) The lender's willingness to extend small loans; and
(d) Flexible repayment schedules because the financier is familiar with the borrower's situation.

66. Unfortunately, Governments tend to be wary of the informal sector, as it is perceived to undermine both financial sector policies and monetary policies. In general, interest rates and credit availability in the informal sector tend to respond to aggregate monetary policy in the intended direction, as strong linkages existed between the two sectors.

67. The main advantage of the informal sector over the formal sector lies, as indicated above, in its lower transaction costs, which results from the specialization in small loans to clients. The lower costs can also be attributed to an absence of legal service requirements and to the minimal regulation compared to lenders in the formal sector. Informal entrepreneurs' comparative advantages reside in, for example, not paying pay-roll taxes or observing minimum-wage regulations, disregard of building standards, sanitary regulations, property taxes, etc.

68. As a consequence of the nature of its operations and its cost advantage, the informal sector is better suited to service the segments of the economy that are neglected by the formal sector. Thus, for instance, many small-scale farmers and entrepreneurs lack the collateral usually required by formal lenders; informal lenders usually do not require it as they are able to base their credit extension decision on personal information about the borrower or on community ties. Borrowers in general need very small amounts of credit or loans of very short duration, which informal lenders could provide profitably because of their low transaction costs; informal lenders can better meet credit demands on short notice. The informal sector can also bypass government credit controls intended to channel credit to certain priority sectors. For example, informal lenders may provide to the poor consumption loans or real-estate loans in countries where credit for those purposes is strictly controlled.

69. Group finance, in various forms, has evolved in many developing countries into an important form of informal credit through the pooling of savings deposits to generate funds for lending to members, and sometimes to non-members as well. It provides access to credit for group members and also the incentive and means to save in financial assets. The funds are sometimes deposited in formal financial institutions. These groups are found in both rural and urban areas

of lower income developing countries. Some fall into the category of rotating savings and credit associations (ROSCAs).

70. ROSCAs are found on every continent. They are known by various names: contribution club, slate, mutual lending society, pooling club, thrift groups, friendly society, rotating credit association, temporary loan association and tontine.[32] The expansion in the practice as well as in the types of ROSCAs definitely points towards a service lack, and therefore a demand for two forms of economic systems: (a) a simple and convenient outlet for savings; and (b) a convenient meeting point between deficit and surplus units, which provides attractive yields to surplus units. The speed and convenience to the surplus and deficit units, added to the fact that the financial institutions seldom considered middle-class householders, the small businessmen and the poor to be eligible for credit facilities, has resulted in the innovative outgrowth of the ROSCAs system.[33]

71. The ROSCAs, therefore, serve as an alternative device for the mobilization of savings to generate funds to serve the poor. As indicated by a number of surveys, the informal credit market - of which ROSCAs as a major component - forms an important sector of the economy. The size of the informal credit market in urban India has been estimated to be at least 20 per cent of commercial credit.[34] A Central Bank of Malaysia survey reported that 75 per cent of the rural credit in the country was accounted for by the informal credit market.[35] These, and many similar findings, strongly suggest that ROSCAs definitely assist in capital formation and consequently contribute towards the economic growth of the country - particularly in the sectors closely concerned with the poor, such as small-scale agriculture and business and micro-enterprises.

72. It has been demonstrated, particularly by IFAD, that group liability can effectively replace land-based or other forms of collateral in lending operations. This is of importance to the poor, who have few assets, or none at all, to offer as collateral. Although they take on many different forms in the various environments in which poor people live, these grassroots groups all operate on similar principles. Their strength lies in their social cohesiveness, rooted in their traditions and socioeconomic reality. Managing money instils a sense of responsibility, which leads to a greater sense of solidarity. The pressure inside the group guarantees that individual borrowers respect the terms of their loan agreement, especially as this is a prerequisite for the receipt of further loans. In fact, the rates of repayment in several well-designed, properly implemented projects around the world are generally higher than 90 per cent.[36]

C. Market-oriented approach to credit and savings for the poor

73. Credit programmes for the poor have generally been set up on the assumption that the poor cannot pay the real cost of credit and that the poor cannot save. Accordingly, credit schemes have involved subsidized rates of interest and there has been a tendency to create solely credit programmes instead of offering a viable arrangement that would enable the poor to accumulate savings as well. These schemes have also been characterized by an orientation towards social welfare in terms of staff skills and attitude. In other words, the poor have been seen as "beneficiaries" rather than "clients". While there are understandable reasons for this approach, experience shows that it has not been particularly effective, as recovery rates have been generally low and mobilization of savings has been low. This approach has resulted in retarding the development of a commercial or a cost-effective method of credit delivery and has resulted in a rapid depletion of the value of loan funds. Studies indicate that a more commercial approach to the provision of credit and mobilization of savings would tend to provide financial services that meet needs of the poor, have good recovery, mobilize savings and become sustainable.[37]

74. First there is the issue of interest rates. Realistic interest rates ensure the viability of the credit schemes, enabling lending institutions to meet their administrative costs and build up a base which will make their lending

operations to the poor sustainable on a long-term basis. At the same time, realistic interest rates promote savings, thereby again reinforcing sustainable lending activities.

75. Secondly, there is the issue of credit control or rationing. As pointed out earlier, Governments in many developing countries have tended to make control over finance an important tool of their development strategies, resulting in financial institutions being required to lend not so much on the basis of normal banking considerations but on government edicts. This has tended to lead to the contraction of the institutional financial sector, depleting its ability to provide financial services.

76. The low level of savings and credit services by the majority of the economically active population in developing countries severely hampers their ability to mobilize domestic resources. The problems are greater for the poorer segments of the population. To reach informal sector borrowers and savers requires the ability to provide lending and services capable of making numerous small loans on a largely unsecured basis and capturing savings of similar amounts.

77. Examples of successful projects such as the Grameen Bank (Bangladesh), the Bank Rakyat (Indonesia) and Predom (Bolivia) all illustrate that the quasi-formal commercial approach can be effective. These three programmes, while operating in radically different contexts, focus on low income populations and enable the following generalizations to be made:

(a) **The poor can afford unsubsidized credit**. Cases such as the three cited above point to the fact that although, like the case of Grameen, a subsidy exists borrowers could still pay a rate that would make the bank profitable. The recovery rate of loans is recorded at 99 per cent, something which regular banks in Bangladesh, where the average rate of default is particularly high, have never approached. This performance indicates an awareness on the part of the borrowers of the importance credit has in lifting them out of destitution. The Grameen Bank, in particular, now stands as a model of lending to the poor, with a very real possibility of being reproduced, not only in the poorest countries, but also in the heart of the richest ones, as witnessed by a project for a similar scheme targeted at low-income women in Chicago (United States of America);

(b) **The poor can be creditworthy.** Evidence indicates that the economic activities of the poor tend to be highly diversified. The credit that is obtained is used as working capital to support the family unit in the various activities where the family units have become very efficient;

(c) **The poor can save.** Evidence indicates that substantial savings can be generated by the poor, including, inter alia, through "forced" savings, such as deductions on loans, as in the case of the Grameen and Predom Banks. These small loans have proved to be very effective in reaching the poor.

78. In this context, it is important to reassess premises that may not have been questioned for some time, in the light of the emerging evidence. There is no doubt that in considering the large resource requirement for poverty reduction, the poor themselves are able to generate savings to invest in their betterment and provide other resources to uplift themselves and their communities. However, for this to happen, there is a need to address some of the factors contributing to general low domestic-resource mobilization, such as low (or negative) returns to financial savers as a result of low administered interest rates; lack of confidence in the banking system; and limited range of instruments of savings mobilization.

III. CONCLUDING REMARKS AND ISSUES FOR FURTHER DEBATE

79. The evidence reviewed in this section covers two decades of development and shows that given the massive and entrenched character of poverty, even a major shift in resources is not likely to be sufficient to address this issue in full measure. For a truly successful effort to reduce poverty, new resources must be generated at the local-community, national and international levels."[18] There is an urgency in developing countries to mobilize domestic resources in the 1990s, in the face of declining inflow of foreign capital, which has resulted from a number of factors, including high indebtedness and slow growth in official development assistance.[19] There is a pressing need for investment, particularly in the agricultural sector and other sectors directly related to the livelihood of the poor. There is a substantial gap between the investment required to attain the objectives of poverty reduction and alleviation and the domestic savings available in many developing countries.

80. The issue of determinants of household savings is crucial to domestic mobilization of resources. There is a need, at individual country level, to identify the significant determinants of savings and the policy implications. Some countries have demonstrated an ability to generate high rates of savings despite institutional and behavioural obstacles to savings mobilization. It would be instructive to examine how such deterrents have been overcome, in order to facilitate useful exchanges of experiences. In dealing with the poor, it might be useful to examine not only the level and rate of savings as policy targets, but the forms of savings as well which might in turn increase the size of total savings. There are many forms of non-financial savings (e.g. rice banks) that have served the poor well and which need to be encouraged and may be institutionalized.

81. It would appear that an effective strategy would be to promote and facilitate the mobilization of household savings and the efficient allocation of credit, with emphasis on improving the access of small farmers and entrepreneurs to financial services. Funds must be mobilized from the domestic non-corporate sector, which is a net saver. This entails the existence of growing and efficient financial intermediation.

82. There are four major building blocks in the development of such an efficient and sound financial system: restructuring of non-viable institutions; building of financial infrastructure; a supportive policy environment; and institutional development. There is evidence that the commercial approach might be more viable on a sustained basis than the often favoured approach that emphasizes subsidized credit, and more successful in promoting the development of the poor sectors of the economy in developing countries.

83. The Intergovernmental Group of Experts may wish to address the following questions:

(a) What are the main impediments to enlarge access of the poor to credit? What measures should be adopted to remove these impediments in the various banking institutions operating in rural areas and informal sectors? (for example, improvement of credit/loan conditions and guarantee schemes according to the activities to be financed, specific targeting of vulnerable groups);

(b) What kind of experiences have been gained in establishing complementarity between the various financing practices such as group versus individual approaches and the various traditional types of credit activities (conventional banks, community development funds, non-governmental organization (NGO) initiatives, etc.)?

(c) How can access to credit schemes by potential entrepreneurs among the urban poor be increased so as to facilitate initial investments? How can

adverse selection by traditional financial institutions against such types of lending be eliminated? How could the activities of NGOs and community initiatives which can provide credit to groups involved in urban productive projects be facilitated?

84. It is important that policy planners and practitioners realize that increased resources nationally will not automatically translate into increased flows of resources to the poor. In fact, more often than not, fiscal policies may affect distribution of income in a manner that does not favour the poor. Purposeful government action is needed to ensure that the poor receive the resources necessary to improve their lot within the budgetary constraints that every country faces.

85. In this context, important issues which the Intergovernmental Group may wish to discuss would include:

(a) What are the scope, ways and means for improving tax collection (and diminishing tax evasion), keeping in mind a poverty-alleviation perspective?

(b) How could tax structures be reformed so as to enhance revenue mobilization, while ensuring that they are not regressive?

86. It is also important to ensure that reductions and stagnation in social expenditures do not disproportionately harm the poor. Equally important, the necessary policy reforms must be implemented to correct the inequities in the allocation of government social expenditures.

87. On the basis of their countries' experiences, members of the Intergovernmental Group of Experts may wish to examine the following:

(a) The budget share which, across sectors, is devoted to rural development, especially in countries where poverty is mainly rural;

(b) The priority given, within each social sector, to protecting or expanding basic services (primary education, basic health care, family planning, extension services, roads in remote areas, etc.);

(c) The relative advantages of tax measures versus those of expenditure subsidies, as a means of income redistribution and poverty alleviation;

(d) The scope for reduction of military spending in favour of social spending.

88. The intergovernmental Group of Experts may also wish, when discussing budgetary policies and exchanging experiences thereon, to examine the revenue and expenditure side of the budget together, as the availability of policy instruments which are efficient in alleviating poverty through income redistribution strongly influences the role of the revenue-raising side of the budget. However, if poverty alleviation can be carried out more efficiently through universal or targeted social expenditure programmes, then tax policy may focus on the efficiency aspect alone, without concern for the equity objective. In a consideration of different policy instruments, it would be thus important to discuss the trade-offs, if any, between efficiency and equity.

Notes

1. See for instance, Basil J. Moore et al: Domestic Savings in Selected Developing Asian Countries, Asian Development Bank Economic Staff Paper No. 2, Manila, Philippines.

2. The information in this paragraph and the next is adapted from Chapter III of The Least Developed Countries 1992 Report, United Nations, New York, 1993.

3. It is estimated that in Sri Lanka in 1980 more than 80 per cent of indirect taxes on tobacco, sugar and liquor fell on the poorest 40 per cent of households, while these taxes produced 28 per cent of total central government revenue. See, ILO "Income Policies in The Wider context : Wage, Price and Fiscal incentives in Developing countries". D. Pankert and D. Robinson (eds).

4. In most developing countries, it is not always certain that the poor derive as much benefit as the rich from public expenditure, but this is a problem to be tackled from the expenditure side of the government budget.

5. Livingstone and H. W. Ord : Economics for Eastern Africa, Ch 35. Heinemann, Nairobi.

6. Insofar as subsidies benefitted them. Many subsidies, however, do not benefit the poor directly (see below paras. 24-26).

7. The topic of the effects of structural adjustment programmes on poverty alleviation is on the provisional agenda of the second session of UNCTAD's Standing Committee on Poverty Alleviation.

8. David E. Sahn, "Public Expenditures in Sub-Saharan Africa during a Period of Economic Reforms", World Development Report Vol.20, No.5.

9. David E. Sahn, Ibid.

10. David E. Sahn, Ibid.

11. Because of low quality, however, an important point that can be made that primary education and health expenditures have mostly "benefitted" the poor, and hence been progressively distributed, as the non-poor avail themselves of private sector alternatives which are of better quality.

12. Source: US Arms Control and Disarmament Agency, World Military Expenditure and Arms Transfers, 1990, Washington, D.C. : United States Government Printing Office, November 1991, table 1 and United Nations Development Programme, Human Development Report 1991, New York Oxford University Press.

13. Idris Jazairy et al The State of World Rural Poverty: An Inquiry into its causes and consequences, IFAD, New York University Press.

14. See for instance : Wan-Soon Kim, Financial Development and Household Savings: Issues in Domestic Resource Mobilization in Asian Developing countries, Asian Development Bank Economic Staff Paper No. 10.

15. This could be in-kind or financial resources. There are many issues that need to be addressed. Some forms of credit lead to perpetual indebtedness of the poor.

16. See, for instance, United Nations Economic Commission for Africa, Agricultural Credit and the Mobilization of Resources in Rural Africa, 1986. E/ECA/PSD.4/9/Rev 1.

17. Mbat, David O., "Commercial Banks and Rural Banking Policy in a Developing Economy: Policy Implications", Savings and Development, No.4, VI, 1982.

18. Fontana, Francesco, "Credit and Agriculture in the Economy of Madagascar", Savings and Development, No.3, VII, 1983.

19. Aggrey-Mensah, W., "Small Borrower Guarantee Scheme - A Ghanian Experience", paper for Workshop on Credit Guarantee Schemes held in Conakry, Guinea, 11-12 December 1980.

20. Economic Commission for Africa, Agricultural Credit and the Mobilization of resources in rural Africa, ECA, Addis Ababa, May 1986.

21. Burrows, J., and others, "The Second Decade: A Basic Economic Report on Kenya", Key Issues in the Private Sector (Report No. 201 KE, Vol.4, Annex), World Bank, 1974.

22. Adapted from M.K. Jogelkar and others, "Role of Credit Systems as Prime Mover for Rural Development", paper presented to the FAO-sponsored Seminar on Harnessing the Financial System in Support of Rural Development, India, July-August, 1981.

23. Bourne, Compton and Douglas H. Graham, "Problems with Specialized Agricultural Lenders:, in Undermining Rural Development with Cheap Credit, Dale, W., Adams et al, eds. (Boulder and London, Westview Press, 1984).

24. Abu-Shaikha, Ahmad, "Towards the Alleviation of Rural Poverty in the Sudan", WCARRD Follow-up Programme: In-depth Studies Series No.1, FAO, July 1983; quoted by ECA, Agricultural Credit and The Mobilization of resources in rural Africa, ECA, Addis Ababa, May 1986.

25. Schaefer-Kehnert, Walter, and J.D.von Pischke, "Agricultural Credit Policy in Developing Countries", World Bank Reprint Series, No.280, (1984).

26. Owusu, Kwame Opuku and William Tetteh, "An Experiment in Agricultural Credit: The Small Farmer Group Lending Programme in Ghana (1969-1980), Savings and Development, No.1, VI (Milan, 1983).

27. Von Pischke, J.D., and John Rouse, "Selected Successful Experiences in Agricultural Credit and Rural Finance in Africa", Savings and Development, No.1, II, 1978.

28. Economic Commission for Africa, Report of the Regional Expert Consultation on the Role of Rural Cooperatives in the Productive Sectors in Africa, (ECA/SDEHSD/IRB/85/Rpt), October 1985.

29. Economic Commission for Africa, Ibid.

30. ILO, "Cooperatives in Food Production with Particular Reference to Food Storage and Security", ILO paper presented at the Regional Expert Consultation on the Role of Rural Cooperatives in the Productive Sectors in Africa, Addis Ababa, Ethiopia, October 1985.

31. Economic Commission for Africa, Ibid.

32. Anderson, R.T. (1966) "Rotating credit Associations in India", Economic Development and Cultural Change, Volume XIV.

33. This has been recognized by scholars as an outgrowth which is an adaptation to poverty: "Many of the traits of the subculture of poverty can be viewed as attempts at local solutions for problems not met by existing institutions and agencies because the people are not eligible for them. For example, unable to obtain credit from banks they are thrown upon their own resources and organize informal credit devices without interest", Lewis, Oscar (1961) Children of Sanchez, New York, Random House.

34. Timberg, T.A., and C. V. Aiyar (1984), "Informal Credit Markets in India", Economic Development and Cultural Change, Volume 33, No.1, October 1984.

35. Central Bank of Malaysia (1985), "Aspects of the Unorganized Money Market in Malaysia", Quarterly Economic Bulletin, Volume 18, No.4, December 1985.

36. The Poor are Bankable : Rural Credit, The IFAD way, IFAD, March 1987, Rome.

37. Henry R. Jackelen and Elisabeth Rhyne, "Towards a More Market-oriented Approach to Credit and Savings for the Poor", Mimeo (USAID and UNCDF).

38. See also World Summit for Social Development, including the role of the United Nations system in promoting Social Development, p.15 (document E/1993/77).

39. This is likely, in the present decade, to be exacerbated by the recession and increased unemployment currently affecting the developed countries.

ANNEX Table

Selected quasi-informal financial arrangements for the poor

Program	Country	Type	Year of Ref.	Years of Oper.	Total Beneficiaries	% who are women	Ave. loan size ($)	% of loan funds in Arrears	Repayment rate (%)
ADEMI	Dominican Republic	NGO	1989	8	19,430 (88)	37	527	6.0	-
BKK	Indonesia	Quasi-govt.	1982	10	2,700,000	60	70	19.0	-
BRAC	Bangladesh	NGO	1987	18	169,000	55	31	-	92.5
BANCO DEL PACIFICO	Ecuador Bank	Prov.	1986	-	4,210	26	300	-	-
CAMCCUL	Cameroon	NGO	1988	20	68,000	25	2,264	24.0	-
GRAMEEN BANK	Bangladesh	Quasi-govt	1990	9	800,000	87	58		98.0
IDESI (Informal Sector)	Peru	-	1987	-	140,570	57.1	1,375	-	-
KUPEDES	Indonesia	Govt.bank	1989	5	1,380,000	25	425	5.4	95
PCRW	Nepal	Govt.	1989	8	6,640	100	59	-	90
FED	Ecuador	NGO	1989	4	2,937 (86)	71	1,150	0.05	-
PRODEM	Bolivia	NGO	1990	3	13,200	70	200		100
SAVING DEV. MOVEMENT	Zimbabwe	NGO	1984	10	250,000	97	-	0.03	-
SEWA	India	NGO	1982	14	40,000	100	72 (76-80)	-	90 (87)
SFDP	Nepal	Govt.	1989	15	78,520	14	74	-	48
WWF	India	NGO	1989	12	50,000	100	-	-	90-95

Source: Sh. L. Holt and H. Ribe "Developing Financial institutions for the poor .....";
World Bank Discussion Paper No. 17, 1991, Washington, D.C.

Distr.
GENERAL

UNCTAD/PA/4
2 November 1993

ENGLISH ONLY

STANDING COMMITTEE ON POVERTY ALLEVIATION
Intergovernmental Group of Experts on
Poverty Alleviation
Geneva, 24 January 1994
Item 3 of the provisional agenda

MOBILIZATION OF EXTERNAL RESOURCES FOR POVERTY ALLEVIATION

Background note by the UNCTAD secretariat

GE.93-54183

CONTENTS

		Paragraphs
I.	INTRODUCTION	1 - 11
II.	FACTS AND FINDINGS	12 - 54
	A. Recent trends in overall aid flows and country allocations: ODA to poor countries, ODA to poor people	14 - 22
	B. Aid, growth and poverty reduction	23 - 30
	C. Aid in support of macro-economic policies and structural adjustment	31 - 34
	D. Aid in support of social services for and to the poor	35 - 38
	E. Support to income-generating activities for the poor	39 - 44
	F. Targeted interventions and experiences with specific anti-poverty projects	45 - 54
III.	NEW ORIENTATIONS	55 - 86
	A. DAC donors' principles, criteria and conditionalities	55 - 58
	B. The new sectoral policies of DAC donors	59 - 68
	C. Multilateral approaches	69 - 81
	D. The role of NGOs	82 - 86
IV.	CONCLUSIONS AND ISSUES FOR FURTHER DEBATE	87 - 95

Annex

I. Donor support to education
II. Donor support to health
III. Donor support to micro-enterprise development

Annex Table 1 ODA to developing countries: key totals and shares
Annex Table 2 Total DAC ODA allocations
Annex Table 3 Total DAC ODF commitments to social sectors and infrastructure
Annex Table 4 Individual DAC donors' aid ratios to social sectors

I. INTRODUCTION

1. In recent years a new perception of cooperation and interdependence of nations, as evidenced for instance by the Cartagena Commitment, has helped usher in an era in which the development task and, in particular, the fight against poverty are increasingly perceived as a common global mission for all members of the international community, based on a sense of shared responsibility and partnership, in sharp contrast with the erstwhile antagonisms between developing and developed countries. A recent testimony to this was at the high-level segment session of the Economic and Social Council in June 1993, where strong and unanimous political support was expressed for the World Summit for Social Development, which will have poverty reduction as one of its three main core topics.

2. The purpose of this note is to review issues related to donor-recipient cooperation within the framework of an international partnership for the prevention, alleviation and reduction of poverty, and to identify areas of convergence as well as problem areas on which members of the Intergovernmental Group of Experts on Poverty Alleviation might wish to exchange views and experiences, in order to contribute to an enhancement of common understanding.

3. This note discusses action and views of donors only.[1] Equally important are recipients' perceptions. The meeting of the Intergovernmental Group of Experts (for which this note is prepared) will provide an opportunity for experts from recipient countries to present their views, on the basis of their own individual experiences, and stress their needs with respect to the issues dealt with here and other related issues they deem to be important to this dialogue.

1. The emerging strategy

4. It is generally considered that a supportive environment for poverty alleviation and reduction requires simultaneous action along three axes: (i) designing and implementation of appropriate macro-economic and sectoral policies conducive to growth and the creation of productive employment that benefit the poor; (ii) delivery of social services for and to the poor (for example, primary health care, basic education, nutrition, water supply and sanitation); and (iii) the establishment of safety nets for the most vulnerable groups. Within this strategy, priority has to be given to the design, sequencing and implementation of policies and measures which permit the poor to be fully integrated into productive activities - i.e. those which not only make them the beneficiaries of growth dividends through redistribution schemes but also active participants in the growth process itself. To be effective - in terms of maximizing responses to needs and minimizing costs so as to make best use of the generally scarce resources available - policies and programmes must, as much as possible, be demand-driven; for this, the poor must be enabled and given the opportunity to

---

[1]/ It is based mainly on information from DAC donors and multilateral agencies like the World Bank and UNDP. This does not preclude recognizing the important role of other agencies of the United Nations system, the specialized agencies, the regional development banks and NGOs to which reference is made on several occasions in the text.

participate and articulate themselves in the design and implementation of anti-poverty projects, programmes and policies. Incorporating systematically a gender element is also essential as women are relatively more disadvantaged and vulnerable in poor communities, but at the same time they have a greater potential as contributors to poverty alleviation.

5. This note will concentrate on the role of aid and modalities of donors' assistance in support of action along the above-mentioned axes. To keep the focus on aid, no attempt will be made to discuss here other issues of international cooperation which must also be in place simultaneously for the success of national development/anti-poverty policies - for example, enhanced financial flows (other than aid), the alleviation of debt burdens, access to technology and better access to markets.

2. The role of aid

6. A main purpose of aid - at least in the general public's eyes in the donor countries, and which stimulates public support for it - is to help alleviate and reduce poverty. Aid can, indeed, do so, indirectly by supporting macro-economic and sectoral policies and programmes/projects which contribute to growth. Aid can also support policies and programmes/projects which directly attack poverty through direct income transfers, the provision of social/basic human needs services and the promotion of income-generating activities. This explains and justifies the plea for more assistance advocated by many, the agreement on aid targets by most DAC donors, and the dependency on aid and its indispensability in poor countries unable to mobilize sufficient domestic resources on their own. (In contrast with middle-income countries, most low-income countries and the least developed countries in particular, have had very little access to private flows and rely almost exclusively on concessional finance to meet their external capital requirements). This note will review both the direct and indirect roles of aid.

7. While it is generally agreed that viable anti-poverty strategies require increased assistance flows, the absorption problems that may arise and the potential disincentive effects of aid are also recognized. Issues related to the quality of aid are thus as important as those concerning its volume.

8. Another important issue is the degree of complementarity of aid programmes and projects to recipients' policies and programmes. This raises questions of dialogue and coordination for ensuring effective benefits to the poor and for optimizing the respective roles of the main actors, i.e. the various donors, bilateral and multilateral, as well as central and local government entities, NGOs, self-help movements among the poor, etc.

9. Following the introduction, section II is concerned with facts and findings regarding: (i) recent trends in overall aid flows and allocations of aid, in particular with respect to poor countries and poor people; (ii) linkages between ODA aid, growth and poverty reduction; (iii) effects of ODA in support of macro-economic policies and structural adjustment on poverty; (iv) policies and programmes which, by their very nature, benefit mainly the poor (basic health, primary education, and income-generating activities, in particular the promotion of micro-enterprises); (v) interventions specifically targeted at the poor (i.e. that include a specific mechanism for identifying and reaching the poor), and experiences (problems with and reasons for success) of specific anti-poverty projects.

10. Section III outlines: (i) new orientations in DAC donors' principles, criteria and conditionalities connected with poverty alleviation and eradication; and (ii) new approaches in multilateral assistance geared to poverty alleviation and eradication.

11. Section IV presents conclusions and identifies issues for further debate.

II. FACTS AND FINDINGS

12. Has aid served to alleviate poverty? One of the conclusions of the Development Assistance Committee's (DAC) Twenty-five Years of Development Cooperation Report (covering the period 1960-1985) was that "the most troubling shortcoming of development aid has been its limited measurable contribution to the reduction - as distinguished from relief - of extreme poverty, especially in rural areas of both middle-income and poor countries".

13. A number of reasons have been identified which explain these findings. On the one hand, donors' motivations and policies have affected the quantity, allocation and quality of aid. Donors' principal reasons for supplying aid have been predominately political/historical, strategic, commercial and humanitarian, while reducing poverty has until recently usually been far from a priority. Only a small number of countries (mainly the Nordic countries) have regularly met the internationally agreed ODA targets for developing countries as a whole and for the least developed countries. New conditionalities have been introduced which, while usually desirable, often impede the timely delivery of aid. As regards specific projects, donors have in many cases shown a preference for funding physical capital installations that help their own firms and exporters, rather than investing in social sectors - such as health and education that make an intensive use of recurrent resources. The fact that a substantial amount of aid has been tied has also had obvious negative repercussions in terms of costs and effectiveness. Technical assistance has mostly been donor-driven and inappropriately conceived. On the other hand, recipients' institutional, managerial and other weaknesses have negatively affected the use and effectiveness of aid. Accountability of the use of aid resources has not always been of high standard - on both donors' and recipients' side - leading to avoidable misuse.[2]

A. Recent trends in overall aid flows and country allocations: oda to poor countries, oda to poor people

14. On the whole, ODA has grown at a slow pace. In terms of donors' efforts (bilateral flows and contributions to multilateral agencies) ODA growth has tended to decelerate in recent years. In terms of developing countries' receipts (bilateral flows and flows from multilateral agencies) ODA growth has fluctuated, being twice negative in real terms during the 1990s (in 1990 and 1992). (See annex, table 1). ODA has not predominantly gone to low-income countries. ODA has grown at a slower pace for the poorest countries than for the other developing countries. In quantitative terms, aid receipts of poor countries and of countries with large segments of poor population have fallen short of their external capital requirements for reaching sustained growth and thereby reducing poverty. Salient features underlying these trends are outlined below.

---

[2]/ For more details, see World Bank, *World Development Report, 1990, Poverty*, pp. 130-133.

15. In 1992, ODA from all sources to developing countries is estimated to have amounted to US$ 58.3 billion, 98 per cent of which came from donors members of the Development Assistance Committee (DAC)[3] and multilateral agencies mainly financed by them. With the end of the Cold War, DAC donors have emerged as the providers, through bilateral and multilateral channels, of the overwhelming share of ODA to developing countries, as aid flows from the former USSR and the countries of Eastern Europe quickly dried up, and aid from OPEC donors continued its downward trend, falling sharply in particular after the conflict in the Gulf. In addition, international NGOs (financed by voluntary private sources and official agencies in developed countries) have come to be regarded as the "third channel" of external resource flows to developing countries, still relatively small compared to overall ODA, but steadily increasing in recent years (in current and real terms) and especially relevant as development NGOs are generally poverty-focused and operate at the grass-roots level. (See annex, table 1).

16. The availability and allocation of concessional resources has taken place in the context of, on the one hand, major budgetary constraints faced by many donors and, on the other hand, growing global demands, buoyed by new eligible or potentially eligible claimants for aid. As a result of donors' budgetary constraints and more numerous and stringent conditionalities, the real annual increase in the volume of aid has tended to decelerate. The real growth of DAC ODA (in the form of bilateral aid and contributions to multilateral agencies) was only 1.1 per cent in 1992, as compared to 3.2 per cent in 1991, 3.5 per cent in 1990 and generally higher averages over the previous years. This corresponded to a stagnation in aid as a percentage of donors' GNP at the level of 0.33 per cent. (See annex table 1). According to a recent note by the OECD/DAC secretariat, "on the basis of present plans, for several donors - including some of the larger ones - aid growth is likely to be lower than GNP growth, with the prospect of reduced ODA/GNP ratios".[4] Within these trends, the developments outlined below are of relevance to poor countries.

17. Firstly - and this is a positive development - there has been no apparent weakening of DAC support to multilateral institutions. The share of DAC aid in form of contributions to multilateral agencies, while widely fluctuating from year to year, was close on the average in the 1990s to the average in the 1980s - and the share of multilateral disbursements in total ODA receipts of developing countries has been on the rise, close to 30 per cent in 1992. Multilateral agencies provide a relatively large share (around three quarters) of their ODA to low-income countries and over 40 per cent of it to the least developed

---

[3]/ See "Financial Resources for Developing Countries: 1992 and Recent Trends", OECD Press Release SG/PRESS(93)41, Paris, 29 June 1993. The members of the Development Assistance Committee are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

[4]/ See OECD, "Trends in the Volume and Orientations of Official Development Assistance from DAC Members", January 1993, p. 13.

countries in particular (see annex tables 1 and 2). The main donor of multilateral ODA is IDA, the World Bank affiliate which provides assistance on concessional terms exclusively to low-income countries.[5]

18. As regards bilateral flows, however, major donors such as the United States, Japan and Germany, have tended to increase concentration of their aid on major recipient countries. Moreover, some relatively small donor countries have traditionally - because of their limited management capacity - concentrated their aid on a small number of recipient countries. Of the 25 major recipients of DAC aid in 1990-91, at least seven countries are not classified as low-income countries.

19. In fact, the share of bilateral flows allocated to low-income countries declined (from 58 per cent in 1988 to 54.5 per cent in 1991) and, as a result, the share of total ODA received by low-income countries was only 60 per cent in 1991. The share allocated to LDCs decreased more significantly to 25.9 in 1991. (See annex, table 2).[6] Thus, ODA has not been principally devoted to poor countries, and the trends have been unfavourable to them.

20. Moreover, there have wide differentials in per capita receipts among these countries. On average, the least developed countries have received higher amounts of ODA in terms of per capita terms but, on the average, there have been great disparities in such allocations. On the other hand, some of the most largely populated developing countries, with the largest numbers of poor people (like China and India), have been the ones receiving less aid in per capita terms.

21. In its *Human Development Report, 1993*, UNDP argues for an allocation of ODA to people rather than to countries. "ODA should go where the need is the greatest, to the poorest people wherever they happen to be. For example, the ten countries containing three-quarters of the world's poorest people should get around three-quarters of ODA, not the present one-quarter".[7]

22. However, as regards the prospects of a greater focus of ODA on the poorest countries, it is pertinent to recall one of the conclusions of the Task Force on Concessional Flows of the World Bank and the IMF (in 1985) which was that, while on development grounds reallocation of ODA to low-income countries was highly desirable and would make a major contribution to meeting their needs, the scope for such reallocations, in practice, was likely to be limited, as were, also, the possibilities for further reallocation of aid within the group of low-income countries. It was pointed out that a number of donors had already gone far in that direction. Moreover, ODA flows to lower-middle income countries could probably not be reduced without disruptive developmental effects, and donors' ODA allocations to middle-income countries were anyway based on other than purely

---

[5]/ The main criteria for eligibility of countries for IDA lending are indeed "relative poverty" (assessed on the basis of per capita GNP figures according to the World Bank methodology), complemented by "lack of creditworthiness" and "performance".

[6]/ In terms of donors' GNP, aid to LDCs fell to 0.08 in 1991 as compared to 0.09 in earlier years.

[7]/ See UNDP, *Human Development Report 1993*, pp.7 and 8.

developmental considerations (i.e. political, strategic, security, historical or commercial reasons).

B. Aid, growth and poverty reduction

23. A basic premise, generally advocated, is that aid can indirectly contribute to poverty alleviation through growth. Experience shows, however, that many conditions must be present for this to work. For a long time, the question of macro-economic influences of aid has been the subject of debate and controversy.[8] As the causal influences at work are so diverse and vary so much according to countries, trying to establish broad quantitative correlations between aid and growth is a complex exercise.[9]

24. Among the factors affecting the effectiveness of aid are not only the recipient's institutional, economic and social policy contexts, but also the quality, continuity and modalities of aid, as well as external factors such as weather, prices, markets, etc.

25. Also, not all ODA is channelled to support development. In fact, as natural and man-made disasters continue to ravage the economies of many poor countries and societies, the share allocated to emergency assistance (which naturally attracts public support more easily) has been on the rise in recent years (from 1.4 per cent of total DAC ODA commitments in 1987 to 3.8 per cent in 1991). An important question, in this connection, is the continuum from emergency aid for immediate consumption purposes to development aid. While the former provides succour to those affected, who are mostly poor, only the latter can contribute to sustainable growth and thereby to poverty reduction.

26. This does not preclude that a causal relationship between aid and economic growth can be discerned in many particular cases[10]. A major study concluded that "most aid succeeds in its developmental objectives ... contributing positively to the recipient countries' economic performance ... not substituting

---

[8]/ Linked with the problems of absorptive capacity and potential disincentives mentioned earlier, are the risks of diminishing returns if aid increases. The possibility of even a negative relationship between aid and development in certain cases has been underscored. For a discussion of this controversy see, e.g., *A world of difference, a new framework for development cooperation for the 1990s*, published by the Dutch Ministry of Foreign Affairs in March 1991, pp. 276 to 279.

[9]/ Apart from the complexity of factors influencing the interlinkages between aid, growth and poverty eradication, their analysis is compounded by inherent difficulties in collecting basic statistical data in many poor countries. Moreover, national accounts tend systematically to ignore or undervalue forms of income which are particularly important to the poor, such as non-monetary income or collective goods and services, and they subsequently understate declines in such incomes. For instance, an increase in income in the formal sector achieved at the expense of a decline in the traditional sectors is recorded as economic growth even though it affects the income level of the poor.

[10]/ A number of countries and territories of Asia, e.g., Republic of Korea, Taiwan Province of China, Singapore, Thailand, Malaysia and Indonesia, are notable illustrative cases of such a positive relationship.

for activities which would have occurred anyway ... Its performance varies by country and by sector ... And there is a substantial fraction of aid which does not work." [11] A recent study based on experiences in Africa stresses variations among countries with "a slight tendency for investment to hold up better in those countries where aid flows increased strongly over the 1980s", adding however, that "this tendency is weak and insignificant because of the number of contrary cases".[12]

27. Furthermore, no general statement can be made about the relationship between economic growth and poverty eradication. While, in principle, a growing economy has more scope to meet the needs of the poor, experience suggests that much depends on policy decisions taken with respect to the allocation of both the resources which generate growth and its fruits. A study by IFAD shows that, over the period 1965-1988, there is no association between the actual growth of GNP per capita and changes either in the income share of the lowest 20 per cent or in the percentage of poor people among the rural population in developing countries.[13] In developed countries as well, there is no simple relationship between poverty and economic growth. In some of them, economic growth during the 1980s was accompanied by a decline in the absolute income accruing to the poorer deciles. On the other hand, according to the World Bank, many of the poor have been able to rise out of poverty under conditions of growth, even in highly unequal societies. Brazil is one example where poverty is estimated to have fallen by 24 per cent between 1960 and 1980.[14] More recently it has referred to a major research project covering twenty-one developing countries and focusing on the relationship between economic growth and poverty during adjustment which

---

[11]/ This study was commissioned by the Task Force on Concessional Flows of the World Bank and IMF in 1985, referred to above. The quotation is cited in OECD, *Twenty-five years of Development Cooperation, A Review*, Paris 1985, p.16. An ample discussion of various findings in this respect is also contained in *A World of Difference, a New Framework for Development Cooperation in the 1990s* (Chapter 10.2), by the Ministry of Foreign Affairs, The Hague (Netherlands), 1991.

[12]/ See UNICEF International Development Centre, *Increased aid flows and human resource development in Africa*, by P. Mosley, Florence, August 1990, p.4. This study also analyses individual country cases and suggests, *inter alia*, that: (a) In the absence of any reform programme, a substantial proportion of foreign resource inflows were allocated to consumption; given that the level of compliance with the conditionality of donors was often low, and that much aid was explicitly allocated to recurrent budgets, it can be said that many aid inflows were used for the purpose of postponing rather than implementing necessary reform; (b) in those countries which did implement reforms, there was a tendency to concentrate austerity measures on the development budgets, rather than the recurrent budget, thus depressing public investment; the initial cuts in public expenditures have not always stimulated local private investment, nor did reforms systematically bring overseas investment; and (c) variations also occurred because of factors such as depressed crop prices, war, mass influx of refugees, which reduced the ability of productive investment to respond positively to aid flows.

[13]/ IFAD, *The State of World Rural Poverty*.

[14]/ See the World Bank, *World Development Report 1990, Poverty*, p. 47.

"found a strong positive correlation between growth and poverty reduction", citing, in particular, Indonesia and Malaysia as illustrative examples of countries having achieved both sustained growth and larger declines in poverty.[15]

28. In this connection, it is important to realize that a growth process induced by economic "poles" located in the so-called "modern" or "formal" sector, can never suffice for solving mass poverty problems which characterize low-income countries and a good number of the middle-income countries. In such cases, the geographical areas and the activity sectors wherein the poor live and work have to be targeted as sources of growth, and policy decisions must be taken in consequence - in particular with respect to access to productive assets.

29. Referring to the influence of the pattern of growth in determining the extent to which income of the poor may grow, the World Bank has found that:

- some structural policy reforms that encourage growth are likely to reduce poverty faster than others, including, for example, removing distortions against agricultural products (since many of the poor are producers in rural areas), relaxing regulatory constraints that limit labour demand, and investing in physical infrastructure and agricultural extension;

- the poor would be able to take advantage of earning opportunities if they have increased access to land and credit, but the success of such programmes depends on resolving difficult design issues as well as on political acceptability. Mention is made of equitable participation in rural-based growth in China from 1978 to 1985 and Indonesia throughout the 1970s and 1980s as bringing about "impressive reductions in poverty";

- finally, equally important are policies that improve the accessibility and quality of basic investments in human resources development, and thereby enhance the productivity of labour - the most important asset of the poor - and are often very effective in transferring resources to the poor. For example, Colombia's success in significantly reducing poverty in the 1980s is cited a result of its sustained growth and of earlier investments that it had made in human capital.

30. Particularly worrisome are the poor growth prospects in some developing regions, notably Sub-Saharan Africa where the projected rates of income growth (partly because of rapid population growth) may not be sufficient to reduce poverty unless new policies are put in place including policies affecting the pattern of growth and allowing the income of the poor to grow faster than the average income of the population. This calls for countries and donors to join their efforts in support of investments in family planning, health and education.[16]

---

[15]/ See The World Bank, *Implementing the World Bank's Strategy to Reduce Poverty, Progress and Challenges*, p. 8. Issues relating to the impact of adjustment lending on poverty are briefly outlined in section C. below.

[16]/ See, The World Bank, *Implementing the World Bank's Strategy to Reduce Poverty, op.cit.* pp.x and xi.

C. Aid in support of macro-economic policies and structural adjustment

31. The debt and development crises in the 1980s have forced many developing countries to undertake stringent reforms, including the correction of existing distortions in major pricing instruments and a shift from a capital-intensive state-based strategy to a market-economy based development strategy. Undertaking these reforms and correcting distortions which primarily harm the poor people are generally being considered as a *sine qua non* for sustainable growth with equity.[17] Donors have thus adjusted their patterns and modalities of assistance through a shift towards increased quick-disbursing policy-based lending (as opposed to project lending). Consequently, in the past decade, a relatively important share of ODA has been devoted to adjustment lending (27 per cent of total World Bank lending *plus* substantial co-financing by bilateral donors)[18]. Structural adjustment programmes have been the subject of continuous debate and review.

32. As regards the impact of adjustment lending on growth, in particular in the case of poor countries, the third review of adjustment lending conducted by the World Bank in fiscal year 1992, concluded that "overall adjustment lending is associated with a recovery in growth rates and improved policies. Middle-income adjusting countries did better than low-income adjusting countries ... The evidence to date ... is that structural adjustment in low-income countries is a necessary - but not usually sufficient - condition for transition to sustainable growth".[19] The first consideration in this respect is that additional elements seem to be required to ensure growth and, in particular, the sustainability of growth following adjustment. The review stressed that adjustment-related support would pay off only if long-run development problems were tackled simultaneously, with substantial support through project and sectoral investment lending from the international community.

33. Concern has been widely expressed on the impact of adjustment programmes on the extent and distribution of poverty, even when they were conducive to

---

[17]/ See OECD, DAC, *Growth and Equity-Oriented Aid and Development Strategies*, DAC (87) 19, p.6, where the effect of policy distortions on the poor is explained as follows: "Overvalued exchange rates and negative real interest rates have skewed income distribution towards those with financial power. As well as providing these elites with windfall gains and inflation protection, such distortions have stimulated capital flight. The losers have been poor people in rural and urban areas. State intervention in the economy without proper fiscal and policy control has engendered inefficiency, increased tax burdens and corruption. Import restrictions have imposed burdens on the export sector. Income has been redistributed from rural to urban areas."

[18]/ In recent years, general programme assistance has fluctuated around 15 per cent of total DAC Official Development Finance (ODF) commitments. Figures for commitments to low-income countries and to the least developed countries show, however, that the corresponding shares of programme assistance for these two groups of countries have tended to be lower than the share for developing countries as a whole. (See annex, table 3).

[19]/ See, The World Bank, *Annual Report 1992*, pp.68-69.

growth and eliminating earlier distortions harmful to poor people. It has been recognized that while correcting distortions would help the poor, adjustment measures such as devaluations hurt assetless poor through inflation, and reduced state intervention can also hurt the poor through cutbacks in health, education, agricultural parastatals (which help smooth the production and consumption cycles), food subsidies, etc. This has lead the World Bank and IMF to give attention, in the design of adjustment programmes, to their distributional impact and to incorporate measures for ensuring that the provision of basic social services to poor people can be sustained.

34. The third review on adjustment lending referred to above found that adjustment policies help most poor people -at least in the medium term. It acknowledged, however, that economic reform programmes often caused welfare declines for some, and that protecting the poor, if not during the whole process, at least during the first stage of the adjustment process, against the current and potential adverse effects of adjustment had become a necessity. Apart from World Bank economists, many experts from other international organizations, research institutes and NGOs agree that, to this end, the following measures in favour of the poor and the poorest segments of the population of the adjusting country should be implemented: increasing their access to productive assets; improving their access to basic services such as health, education and others; increasing their employment opportunities and diversifying their sources of income earning; providing them with financial support in the form of transfers (food subsidies for example); and facilitating their access to credit. Moreover, it has been recognized that such temporary declines in the social welfare of the poor during adjustment could be cushioned by well-targeted public transfer programmes (e.g. public-employment schemes or food and nutrition programmes for vulnerable groups).[20]

D. Aid in support of social services for and to the poor

35. Available information does not permit an accurate assessment of trends in support of social services for and to the poor. Even estimating trends in aid to social services, such as primary health care and basic education, which are known to be of primary benefit to the poor, although not exclusively directed to them, is difficult. The DAC Creditor Reporting System (CRS) which is the most detailed in this respect provides only an incomplete record of flows for calculating sectoral aid allocations. Improvements in the way the system is devised and in the reporting of DAC members are clearly called for. Development Cooperation reports of UNDP and information from aid agencies are difficult to use (be ause of problems of comparability, classification, timeliness, etc.). Information from NGOs is very scanty.

36. Nevertheless, a broad indication of donors' relative support to social sectors can be derived from CRS data official development finance commitments by purpose. These show that during the most recent years (1988 to 1991) for which data are available, the shares allocated to education, health, other social infrastructure and water sanitation and sewage, generally increased, notably in the case of low-income countries and least developed countries. (See annex table 3). Also, the majority of DAC donors have been increasing their ODA share allocated to social and administrative infrastructure (on the average from 20.1

---

[20]/ See the World Bank, *Annual Report 1992*, p.69 and section F below.

per cent in 1975/76 to 23.5 per cent in 1989/90). However, the largest bilateral donors, such as Japan and the United States, are among the donors which have provided the lowest shares to the social sector (respectively 18.9 and 15 per cent in 1989-1990). Comparable figures for multilateral agencies show shares as high as 39 per cent for the United Nations agencies (including UNDP, UNICEF, UNWRA, WFP, UNHCR and UNFPA) and 32.1 per cent for IDA.[21]

37. A more refined but less encouraging picture is given in UNDP's Human Development Reports which present four types of ratios, namely (i) aid human expenditure ratios (the percentage of a donor's GNP going to human priority areas in recipient countries or the amount of official development assistance received for human priority areas expressed as a percentage of the recipient country's GNP); (ii) aid social allocation ratio (the percentage of official development assistance that goes to the social sector); (iii) aid social priority ratio (the percentage of social sector official development assistance that goes to human priority areas); and (iv) social priority aid, as percentage of total aid. Human priority areas relate to basic education, primary health care, safe drinking water, family planning and nutrition programmes. These ratios are calculated for individual and major groups of recipient countries, as well as for individual donors. Australia, Germany and Japan are the donors with the lowest ratios in 1988/1989 (see annex table 4). UNDP proposes that "at least 20 % of total aid should be allocated to human priority concerns" (of primary benefit to the poor) "three times the present 6.5 %".[22]

38. One reason for which bilateral donors are reluctant to provide direct assistance for primary social concerns such as primary health care and basic education, is that these are areas where recipient governments and local administrations are seen as bearing the primary responsibility. For donors to support social programmes and projects implies relatively less capital-intensive and administrative-intensive assistance (as compared to other types of programmes) but relatively more local and recurrent cost financing. Many donors traditionally rather prefer to finance the foreign exchange of investment costs and are reluctant to finance recurrent costs.

E. Support to income-generating activities for the poor

39. Support to income-generating activities for the poor can be provided by making available employment opportunities, either directly by creation of jobs or indirectly through provision of assets (credit, land) directly to the poor.

40. It should be noted at the outset, as regards access to land, that while land tenure arrangements are obviously critical for small farmers - as are land-tenancy arrangements in solving the housing problems of the urban poor - this is a difficult area which has been generally neglected by donors.[23]

---

[21]/ OECD, "Trends in the Volume and Orientations of Official Development Assistance from DAC members", Table 11, Paris January 1993.

[22]/ See UNDP, *Human Development Report*, 1993, p.7.

[23]/ The World Bank has been undertaking projects related to land titling (see section F.1 below).

41. Moreover, as income-generating activities largely relate to the grass-roots level, the role of aid agencies tends to be seen more as to encourage and support recipient governments and local communities in designing and implementing programmes related to these activities, rather than to get themselves directly involved in the delivery of such programmes. "Aid agencies face inherent problems in operating projects at the grass-root level, and their interventions can mitigate against very small producers if the hardware they bring is relatively capital and technology intensive and if the project operates to bring disproportionate benefits to local elites".[24]

42. Micro-enterprises have a considerable economic value for the poor, as they not only constitute a major engine of employment creation for the poor but also produce goods and services that can be consumed by them. They are extremely heterogeneous, ranging from rural-based agro-business and handicraft production to urban-based trading, services and manufacturing. Most of them are part of the informal sector. Although it is difficult to assess the importance of this sector, its incidence is considered to be extremely large in many developing countries and expected to be on the rise in the years to come.[25]

43. Traditionally, assistance to micro-enterprises has taken the form of supply-side interventions through the provision of short-term credit and technical cooperation to firms as well as assistance to strengthen institutions that deliver these resources and services. Data permitting an assessment of the relative magnitude and trends in financial and technical assistance support to micro-enterprises are not available.

44. Lessons from the past have shown that donors have, however, experienced many problems with their projects. These include faulty understanding of and inadequate focus on specific problems and circumstances of micro-enterprises and the informal sector; weak implementing organizations; reliance on centralized/government institutions as project intermediaries; poor donor coordination at country level; provision of certain inappropriate supply-side interventions; and inability to reach the intended target group. Experience has also shown that successful outcomes are crucially linked to the choice of appropriate intermediaries, the use of proven resource delivery techniques and the direct participation of project beneficiaries. Finally, it has also been recognized that "supply-side interventions will come to naught if real incomes - especially among rural households and the urban poor - do not stimulate demand conditions in the local economy, leading to increased sales of the goods and services produced by microenterprises. Hence, the donor community now places a far greater emphasis on the policy dialogue with developing country authorities and indirect assistance efforts aimed at policies and reforms stimulating more efficient and stable economic growth"[26].

---

[24]/ See, OECD, DAC, *Growth and Equity-Oriented Aid and Development Strategies, 1992*, p.7. DAC (87) 19.

[25]/ See OECD, *Development Cooperation, 1991 Report*, Chapter IV, Paris 1991, which is the principal source for this section.

[26]/ See OECD, *Development Cooperation, 1991 Report*, p.78.

F. Targeted interventions and experiences with specific anti-poverty projects

1. Targeted interventions

45. Targeted interventions which benefit specific groups identified as belonging to the poorest sections of the population are especially relevant in countries with narrowly concentrated pockets of poverty (as opposed to low-income countries with widespread poverty). Experience with anti-poverty projects has shown, however, that benefits intended for the poorest are often captured by the middle-class.[27] Careful targeting is difficult and costly as it necessitates surveys with disaggregated data. In the absence of reliable quantitative data, qualitative information can also be used, at least to identify and localize the poor and target programmes for them. For instance, populations in certain regions, certain ethnic groups, displaced and refugee populations, households headed by women, and such functional groups as smallholder farmers, the landless in rural areas, nomadic pastoralists, and small-scale fishermen, are known to be specially vulnerable to poverty.[28]

46. Examples of interventions which, by their nature, incorporate a targeted mechanism, are the so-called safety nets. There are many kinds of activities undertaken under the broad concept of safety nets: nutritional supplement programmes, specific health care programmes, relief operations, employment schemes (such as labour-intensive public works) and social transfers. The safety nets are established either on a structural basis, or on a transitional basis. In the second case, they are directed at those who are most affected or hurt by a temporary economic crisis and structural adjustment programmes, or those who are victimes of natural or man-made disasters. They are generally targeted at the extremely poor, sometimes with a particular focus on the most vulnerable groups: women and children, refugees and indigenous communities. However, in the case of redeployment programmes for retrenched workers, connected with the restructuring of public enterprises under adjustment programmes, the target groups (former public employees) are generally not among the poorest strata of the population (and often may already be undertaking parallel outside activities).

47. The choice of safety nets and the possibilities for implementing them vary by country. In those countries where poverty is widespread, no general and permanent safety net seems to be feasible, although specific schemes may be activated in times of acute crisis or disaster. In those countries where geographical areas or population groups characterized by extreme poverty remain limited, transfer schemes may be warranted.[29]

---

[27]/ The World Bank, for its part, has stressed the difficulty of assessing the effect of aid projects on the poor, and has noted that sometimes assistance for specific anti-poverty projects indirectly finances undertakings that may not help the poor and may even hurt them.

[28]/ See IFAD, *The State of World Rural Poverty*, pp.45-46.

[29]/ For an ample discussion of safety nets and social funds, including their modes of financing, see document UNCTAD/PA/2.

48. The World Bank has instituted the Programme of Targeted Interventions (PTI) which includes both broadly targeted projects (i.e. projects in which the participation of the poor significantly exceeds the proportion of the population as a whole, even if an explicit mechanism is not necessarily included, and these constitute the majority of PTI projects) and narrowly targeted projects (i.e. projects that include a specific mechanism for identifying and reaching the poor). The latter relate mainly to credit, land titling, and activities relating to population, health and nutrition. As regards safety nets, the World Bank reports to have supported "a small but growing number of interventions (either as free-standing operations or as components of projects)". (They expanded from "none in 1985 to fifteen in fiscal years 1991-1992"). The most common interventions have been labour- intensive public works, nutrition programmes, targeted food subsidies, and the provision of family benefits. They have been instituted in countries under adjustment, including countries in transition, and in countries afflicted by natural disasters.

49. Experience has shown difficulties in achieving effective targeting. Findings in this respect are that programmes that use self-selection mechanisms (such as providing jobs that pay low wages so that only the poor have an incentive to take them) rather than those that rely on means testing are often cost-effective because the former have lower administrative costs. Moreover, for food subsidies, especially in the case of urban areas where the potential of diversion is greater, targeting can be achieved by choosing the commodities to be subsidized carefully or by locating distribution outlets in poor neighbourhoods.[11]

2. Specific anti-poverty projects

50. Donors have experienced a number of difficulties in undertaking projects directly addressing poverty problems at the grass-root level. This has much to do with the administrative-intensive nature of projects while disbursement might be quite small, problems of sustainability, and the importance of involving local communities enhancing the effectiveness of poor people at the local level in representing their own interests, and the possible reticence of recipient governments, as well as the need to take into account local realities. Building a significant technical assistance component into capital projects has been found to help cope with problems of sustainability. For the rest, many donors have opted to work through NGOs and other intermediaries; but in that case, further problems of impact and replicability have been found.

51. The reasons why many aid projects have proved to be ineffective include (i) lack of commitment to help the poor (resulting in diversion of benefits to the non-poor); (ii) macro-economic and sectoral policies (e.g. pricing policies in the agricultural sector and land-use policies in the urban areas) at variance with the objectives of the projects; (iii) frequent shifts in donors' concerns and policies which have often overshadowed the need for stable long-term strategies, and lack of coordination among donors; (iv) neglect of the institutional and managerial aspects of poverty-oriented projects; and (v) inadequate participation of the beneficiaries (local community organizations,

---

[11]/ See, The World Bank, *Implementing the World Bank's Strategy to Reduce Poverty*.

organized groups of poor workers, borrowers, or women, etc.) and little attention given to socio-cultural and political factors in recipient countries.

52. Although views do not concord, areas where projects are considered by some to have been relatively successful are: agricultural research (particularly on crops grown predominantly by the poor) and extension; the introduction of high yield varieties of food grains in Asia and especially India (the "Green Revolution"); irrigation that benefits many small farmers, especially in Asia; basic infrastructure in rural areas, especially farm-to-market roads in many low-income sub-Saharan African countries; primary education, basic health care and nutrition; rural public schemes, and relief from natural and man-made disasters.

53. On the basis of its own experience, the World Bank has identified the following shortcomings concerning rural development projects, i.e., projects principally aimed at shifting the forms of agricultural development towards smallholder farmers and at increasing farmers' productivity, output and income: (i) many integrated projects were too ambitious and complex and they often placed impossible demands on local leadership and institutions; as a result, they performed worse than projects with simpler designs; (ii) in many cases the benefits flowing from projects were not sustained beyond project completion; projects that encouraged participation worked better; and (iii) government policies on prices, interest rates and input supplies were frequently at variance with project objectives. Many projects thus tended to be "enclaves" within national agricultural systems that were still largely inefficient and inattentive to the needs of poor farmers.

54. As regards urban poverty projects, the main lessons which could be drawn were that: (i) the larger policy and institutional environment can hamper urban poverty projects, just as it has rural development projects (the concentration of land in the hands of large property owners often made it difficult to acquire land for housing projects; zoning regulations also generally discriminated against the poor; and the inefficiencies of service-delivery organizations often thwarted efforts to provide municipal services to poor areas); (ii) it is difficult for urban poverty projects to reach the poorest people. (The most comprehensive study conducted by the Bank found that people in the middle rather than the lower part of the urban income distribution tended to gain most); and (iii) project-level interventions, such as shelter projects, often do not have much influence on the overall urban policies of recipient countries (some old planning and design criteria have given way to lower-cost solutions, but the laws, codes and regulations that provide the framework for private housing development have generally been left unchanged); in most countries sites and services projects - like many rural development projects - become "enclaves".[31]

---

[31]/ See, The World Bank, *World Bank Development Report, 1990.*

III. NEW ORIENTATIONS

A. DAC donors' principles, criteria and conditionalities

55. In December 1988, DAC Aid Ministers, joined by the heads of the World Bank, the IMF and UNDP, adopted a "Policy statement of development cooperation" embodying their aid policy orientations for the 1990s. Essential elements therein, concerning aid and poverty, are the following:

> "... the vicious circle of underdevelopment that links high population growth, poverty, malnutrition, illiteracy and environmental degradation can be broken only through economic and developmental strategies and policies which integrate the objectives and requirements of :
>
> - Promoting sustainable economic growth;
>
> - Enabling broader participation of all the people in the productive processes and a more equitable sharing of their benefits;
>
> - Ensuring environmental sustainability and slowing population growth in those many countries where it is too high to permit sustainable development ...
>
> ... The developed and other economically advanced countries cannot live in isolated enclaves of prosperity in a world where other countries face growing mass poverty, economic and financial instability and environmental degradation. Not only is this unacceptable on humanitarian grounds; the future well-being of developed countries is linked to economic progress, preservation of the environment and peace and stability in the developing world ... In poorer developing countries in particular, with insufficient domestic financing and limited external debt-servicing capacities, official development assistance has an important role to play in laying the basis for improved growth."

In that same policy statement, collectively, DAC members agreed to seek further substantial increases in the aggregate level of aid and improve its quality and coordination.

56. More recently, priority has been attached to issues of aid policy coherence among DAC members, and to the importance of developments in recipient countries as regards, *inter alia*, participatory development and good governance (including democratization and human rights), which are now seen as essential conditions for broad-based development and poverty reduction.[32]

57. Although aid criteria and policies do vary from one donor to another, poverty reduction figures prominently among the objectives commonly cited in

---

[32]/ See, e.g. OECD, *Development Cooperation, 1992 Report*, Part I, Paris 1992, and OECD Press releases SG/PRESS (90) 76 of 4 December 1990, SG/PRESS (91) 72 of 4 December 1991, and SG/PRESS (92) 90 of 1 December 1992.

individual policy statements. Other objectives mentioned relate to human development, environmental protection, reduced military spending, efficient economic management, private enterprise development, enhancement of the role of women, good governance and democratic government, and the observance of human rights and the rule of law.[33]

58. DAC donors' objectives and allocation criteria of aid have evolved with added conditionalities closely linked thereto. This means that recipient countries are now not only facing increasing competition for available funds (which are not growing fast enough owing to donors' budgetary constraints), but they have also to pursue certain objectives considered as indispensable by donors and to have these objectives within reach. Moreover, as always - in addition to general economic development objectives - commercial, political, humanitarian, historic and cultural interests have continued to influence aid allocations.

B. The new sectoral policies of DAC donors

59. Below is a review of recent basic aid research undertaken and new policies adopted by DAC donors in areas of direct relevance to poverty alleviation and reduction. The review is directed at three areas of possible interventions (although there are more) and the new policies are more incremental than wholesale in nature. The policies are stated mainly in the words of the DAC donors.

1. Aid for basic education[34]

60. The World Conference on Education for All, held in Jomtien, Thailand, in March 1990, adopted a Declaration which called for an expanded vision of basic education that included early childhood care and initial education; primary schooling or alternative programmes; literacy, skill training, formal and non-formal programmes affecting health, science, technology, environmental and other societal issues for youths and adults; channels for information and communication. This expanded definition, in addition to requiring new ways of thinking about education, also called for new modalities of aid cooperation and new strategies for making assistance more effective, as well as for an appropriate amount of resources allocated to each of the components.

61. A "Framework for Action to Meet Basic Learning Needs" was endorsed at the Conference, in order to operationalize the World Declaration. The framework included a series of tasks for countries, NGOs, and the international community, with indicative phasing to the end of the century. At the country level, the first priority was to determine intermediate goals and targets for "Education for All", and to design a plan of action for achieving them. At the international level, action was needed to help countries meet their targets; this would imply

---

[33]/ See, e.g. World Bank, *Global Economic Prospects and the Developing Countries, 1993*, Washington, D.C., pp.49-50.

[34]/ This section is based on OECD, *Development Cooperation, 1992 Report*, Part II, Paris 1992.

sustained long-term support as well as increased financial assistance, and the establishment of procedures for monitoring progress.[35]

62. DAC members' roles and responsibilities in this regard were reviewed in June 1992. In their conclusions they underlined the areas of donor action, namely:

- emphasizing basic education in their policy dialogue with developing countries;
- providing long-term assistance for comprehensive sectoral programme support;
- assisting in the building and strengthening of national capacity to plan, manage, undertake relevant research, monitor and evaluate basic education programmes;
- supporting strategies to promote the education of girls and women;
- increasing the share of aid available for education, with the bulk devoted to basic education;
- strengthening donor capacity to deal with basic education issues on a cross-sectoral basis;
- monitoring aid policies and aid flows to basic education."

63. A number of main issues were considered and recommendations made in respect of donor support, which are outlined in annex I.

2. Aid for primary health care[36]

64. In the course of the past several years, approaches to health care have evolved substantially. At the 1977 World Health Assembly, a comprehensive strategy for health improvement "Health for All by the Year 2000" was endorsed by member States. This strategy, rather than prescribing a desirable level, or type, of health care provision for the people of the world, stipulates that "as a minimum all people in all countries should have such a level of health that they are capable of working productively and of participating actively in the social life of the community in which they live". Concomitant with this approach is that "health is far too important to be isolated and defined within the health sector alone" and that ill health is frequently a consequence of poverty and can only be alleviated when poverty is successfully tackled. A year later (in 1978) the world community met in Alma Ata and adopted the Primary Health Care approach, meant to enable countries to achieve the target of health for all. A main Alma Ata message was that too much was being spent on curative and urban-focused programmes and not enough on primary health care for the whole population.

---

[35]/ See OECD, *Development Cooperation, 1992 Report*, pp.70-73.

[36]/ This section includes extracts and summaries of OECD, *Strengthening Development Cooperation from Primary Health Care*, Paris 1989.

65. A DAC meeting on Strengthening Development Cooperation for Primary Health Care was held in September 1988. The main stress was on the following:

- the continuing validity of the primary health care concept;
- the need for helping developing countries improve primary health care policies and programmes;
- strengthened aid coordination to ensure, *inter alia*, consistency of action among donor interested parties in the donor countries and in the recipient country;
- enhanced priorities for primary health care and related assistance;
- the crucial issue of financial sustainability;
- the role of women in primary health care;
- the proper role of vertical approaches;
- strengthening recipient countries' capacity to manage health systems;
- improving data on health status.

These issues are further elaborated in annex II.

3. Support to micro-enterprises

66. Because of their general benefits in terms of output, employment, indigenous business development and poverty alleviation, and also because micro-enterprises are seen as responding to major donors' preoccupations, by contributing, *inter alia*, to greater reliance on the private sector, more equitable economic growth, and greater participation of poor people (including women) in all aspects of economic development, considerable research has been carried out to find out how donors could best support the promotion of such enterprises.

67. One of the main conclusions of the DAC meeting on strategies for micro-enterprise development which took place in March 1991 was the need for donors to shift the focus of assistance away from project-centred intervention and towards improving and strengthening the policy framework and developing indigenous institutional systems which promote and facilitate micro-enterprise development, ultimately on a self-sustaining basis. Stress was put on the need to design a wide range of interventions to support, through diversified modalities, broad country strategies for micro-enterprise development.

68. The basic elements to be taken into account in the design of programmes for the development of this sector are summarized in annex III.

C. Multilateral approaches

1. The World Bank

69. The World Bank, through the International Bank for Reconstruction and Development (IBRD) and its affiliate, the International Development Association (IDA), is the main provider of multilateral finance to developing countries. The World Bank has established as a fundamental objective the achievement of sustainable poverty reduction in the developing world. Its assistance rests on a strategy for reducing poverty, developed on the basis of a review of country experiences. This strategy, enunciated in the *World Development Report, 1990*, is predicated upon a two-pronged approach: the first part involves promoting broad-based growth that makes efficient use of the poor's more abundant asset, labour. The second part involves providing the poor with access to basic social services, including safety nets to be established to protect the most vulnerable members of the society.

70. In a more recent report on the implementation of this strategy, the World Bank adds that for those countries where there has been considerable success in reducing poverty, the focus should be on improving public expenditure programmes to promote equitable access to social services and to physical infrastructure and on eliminating policy distortions that adversely affect the interests of the poor.[37]

71. To apply this strategy in its operation and guide staff in implementing this strategy, The World Bank has issued a main policy paper, *Assistance Strategies to Reduce Poverty (1991), an Operational Directive*, and the *Poverty Reduction Handbook (1992)*, with many country case examples at the policy, programme and project levels. The World Bank operates at the country level, carrying out poverty assessments and incorporating the results of these assessments into country strategies.[38]

72. The focus of the World Bank on strategies to reduce poverty has been translated into a reorientation of the composition of its investments, with a relative expansion of its lending for rural infrastructure (e.g. roads, village infrastructure and electrification), a five-fold increase in lending for human resources development as compared to the early 1980s (amounting to 14 per cent of total lending in fiscal years 1990-1992). Lending in human resource development is now concentrating on the development and extension of basic social services, such as primary health care, and primary education, with special emphasis on maternal and child health and on improving educational opportunities for girls. The number of investment operations that included a specific mechanism for the poor and/or in which the participation of the poor significantly exceeded the proportion of the poor in the population as a whole (called "programme of targeted interventions (PTI)" and already referred to

---

[37]/ See, the World Bank, *Implementing the World Bank's Strategy to Reduce Poverty, Progress and Challenges*, Washington, April 1993, p.4.

[38]/ As of November 30, 1992, 20 assessments have been reported to be completed for nineteen countries (with one update). By the end of fiscal year 1995, 68 additional poverty assessments are scheduled to have been completed for 61 countries (including seven updates).

earlier) and amounted to 14 per cent of total bank lending in 1992, covering a wide range of sectors.

73. The World Bank has also reoriented its adjustment lending with an increasing number of structural (SALs) and sectoral (SECALs) adjustment loans which are poverty-focused by supporting the protection and reorientation of public spending on basic social services and promoting safety nets or targeted transfers to specific poor groups (in particular targeted food subsidies, food assistance programmes and redeployment programmes for retrenched workers). The share of adjustment lending that addresses social issues climbed from 5 per cent in fiscal years 1984-1986 to 50 per cent in fiscal years 1990-1992. In fiscal year 1992, 18 out of 32 adjustment loans included an explicit poverty focus, and 14 of these adjustment loans had related tranche-release conditions.

74. In addition to continuing and deepening its efforts along the lines mentioned above, the World Bank intends to carry out analytical and country work on the following issues which in its view have not yet been systematically addressed: (i) assessing the distributional impact of public expenditures and of labour market and other policies; (ii) systematically incorporating lessons learned from the evaluation of ongoing and completed programmes and projects into the design of new policies, programmes and projects; and (iii) pursuing participatory approaches to poverty reduction within countries, with country counterparts, with donors and other official agencies, and with nongovernmental organizations (NGOs) to ensure ownership of and commitment to the poverty reduction strategy among all relevant development partners.[39]

2. The United Nations Development Programme (UNDP)

75. During its current fifth programming cycle (1992-1996) UNDP is to focus on building and strengthening national capacity in six principal areas, the first one being "poverty eradication and grass-roots participation in development" (see Decision 90/34 of UNDP's Governing Council adopted on 23 June 1990). UNDP's operational approach to poverty alleviation is to support countries in building their capacities for diagnosing and effectively responding to their poverty problems. In the view of UNDP, effective poverty alleviation necessitates particular attention to such policy areas as the interrelationship between macro-policy frameworks and poverty, access to health, education and other basic social services, as well as improved structures and institutions for widening participation in social sector decision making.

76. Other areas of UNDP activities include, *inter alia*, its support to the involvement of non-governmental and grass-roots organizations in many aspects of development policy and programming, especially in the social sectors, aimed particularly at the empowerment of poor communities. (An example of such cooperation is: involving by UNDP of key NGOs in policy dialogue on survival strategies for the poor, in the preparation and carrying out of the International Conference in Mexico in September 1993, on the theme of social development and poverty, of which UNDP is a co-sponsor). The Human Development Reports series of the UNDP have provided a broad policy framework for programmes in the current cycle. Out of 93 country programmes approved for the cycle, more than 80 per

---

[39]/ See, The World Bank, *Implementing the World Bank's Strategy to Reduce Poverty, op.cit.* p.ix. This report also contains summaries of poverty assessments, as well as of SALs and SECALs.

cent are focusing on priority human development concerns of equity, empowerment and sustainability. The human development approach underscores participatory involvement at all levels.[40]

3. Other multilateral assistance

77. Among the regional development banks, the Asian Development Bank (ADB) established an internal task force in 1988 to examine the issue of poverty alleviation vis-à-vis Bank programmes. On the recommendation of the task force that the Bank should step up its efforts in that area, the Bank developed specific objectives to be achieved in its programmes, including the following: (a) paying greater attention to poverty issues in traditional projects, in order to avoid negative impacts on the poor from such projects; (b) increasing the number of social sector investments and environment projects, such as those relating to basic health care, population planning, slum upgrading, water supply, primary education, social forestry and non-commercial energy; (c) increasing the number of projects that have a direct impact on the employment and income of the poor, such as those providing small credits for micro-entrepreneurs or supporting labour-intensive investments in industry and employment schemes ("food for work programmes", for instance); (d) supporting sectorial policies/programmes that are specially designed to benefit the poor through the Bank's programme lending policy.[41] In March 1992, the Bank adopted a Medium-Term Strategic Framework (1992-1995) with poverty reduction as one of its five strategic objectives. The Bank now supports policy adjustments to involve the poor in the development process. It has developed guidelines for incorporation of social dimensions in its operations. It will also be using the round table mechanism as a means to foster dialogue on poverty reduction with its member countries.[42]

78. The Inter-American Bank (IDB) has been paying special attention to the relationship between projects and income distribution. Following the Board of Governors' mandate that 50 per cent of the IDB's resources be directed to low-income households, considerable work has been devoted to (i) procedures for defining the low-income concept; (ii) methods for trading and measuring how

---

[40]/ For more details see "World Summit for Social Development, including the Role of the United Nations System in Promoting Social Development", Addendum to the Report of the Secretary-General (E/1993/77/Add.1.) which provides an overview of the activities of the agencies of the United Nations system, including the specialized agencies, related to the core issues of the World Summit for Social Development.

[41]/ See ESCAP, *The Regional Poverty Situation, National Policy Approaches and International Initiatives: International Initiatives* (document E/ESCAP/CPA/3, August 1993).

[42]/ A round table on poverty alleviation in India has been scheduled to be held in December 1993 to be attended by government officials, distinguished academics and NGOs. For more details on the Asian Development Bank approaches and activities in respect of poverty alleviation, see its latest Annual Reports.

projects affect low-income households: and (iii) development of an accounting system to tabulate the distributional impact of all IDB projects.[43]

79. The International Fund for Agricultural Development (IFAD) is another illustrative example of an agency which has been carrying out poverty-focused activities. In the context of its mandate to alleviate the poverty of rural societies of the developing world through increased food production, reduction of under-nutrition and enhancement of rural incomes, IFAD has based its activities on a new development paradigm, the main focus of which is that the rural poor, who constitute the mass of the world's poor, must be integrated into the very process of development as productive members of society.[44]

80. The first step of its work in this area represents the process of identifying in each member country of the most vulnerable groups, their sources of making a living and the constraints to their productivity. In implementing programmes, IFAD has taken into account such key factors of productivity as access to land, access to resources (infrastructure, technology and social services), access to off-farm employment and capital, and issues related to women's productive activities in rural societies.

81. In addition to UNDP, IFAD and other agencies like UNICEF, whose operational funds and programmes are coordinated by the Joint Consultative Group on Policy (JCGP) and which provide financial assistance directly, or indirectly, related to poverty alleviation, many agencies of the United Nations system, as well as the specialized agencies like FAO, ILO, UNESCO and WHO, have been carrying out operational activities, as well as research work and intergovernmental debates in their own fields of competence, directly or indirectly concerned with poverty-related issues, thus playing a catalytic role in identifying the needs of the poor and in mobilizing additional resources, e.g. through co-financing, particularly among financial institutions, for poverty alleviation.[45]

---

[43]/ See OECD, "The Impact of Development Projects on Poverty", Paris 1989, p. 53, which incorporates papers prepared for a seminar on this subject organized jointly by the IDB and the Development Centre of OECD.

[44]/ The corollaries of this paradigm are: (a) that the rural poor must be active participants at all levels in their own development; (b) that the rural poor have knowledge and skills that can and must be tapped to increase production and incomes; (c) that rural women are major contributors to food production and family income and thus have a key role to play in development; (d) that more attention must be given to small farmers, including women, for they are the agricultural "core" in most developing countries; (e) that even small investments in developing the skills and know-how of the poor and in improving their access to inputs and services, can have a significant effect in raising output and incomes; (f) that enhancing the productivity and self-reliance of the rural poor on a micro-level can lead to macro-economic growth, etc.. (See also IFAD, the State of World Rural Poverty).

[45]/ See "World Summit for Social Development, including the Role of the United Nations System in Promoting Social Development", Addendum to the Report of the Secretary-General (E/1993/77/Add.1.) which provides an overview of the activities of the agencies of the United Nations system, including the specialized agencies, related to the core issues of the World Summit for Social Development.

D. The role of NGOs

82. The role of NGOs in mobilizing financial resources, promoting people's participation and reducing poverty is increasingly recognized, both by national authorities and international institutions. The 1970s and 1980s saw the emergence and multiplication of advocacy groups, NGOs supporting specific activities in the economic and social fields, and wider entities in the form of consortia and people's movements. Three main factors can explain this significant evolution. First, in a context of rapid political changes induced by democratization processes in many parts of the world, people are demanding greater participation in civil society and use this opening of the political space for taking initiatives and organizing themselves. Furthermore, with the extension of the economic crisis, the burgeoning of movements in civil society is a response to increased social demands which cannot be met by governments because of the severe financial constraints they are facing. Finally, more and more countries are disillusioned with the performance of much official aid and see NGOs as the most efficient way to bring effective support to the poor.

83. Grants by Northern NGOs to projects and programmes in developing countries increased from just over $1 billion to $5 billion between 1970 and 1990.[46] Almost one third of this latter amount needs to be added to take into account government funds channelled through NGOs. The total transferred by and through Northern NGOs has thus exceeded $7 billion in recent years. On the recipient side, it is estimated that NGO activity reached roughly 100 million people in developing countries in the early 1980s and that today the total is probably nearer 250 million.

84. The relatively large rate of increase in resources mobilized and used by NGOs, especially when compared to the rate of increase in ODA, has been accompanied by an extension of their scope of activities. Starting with social projects, many of them have evolved towards the support of productive activities conducted by people's movements in the framework of integrated and comprehensive programmes developing at the local, national and, sometimes, regional levels. Furthermore, new areas have emerged, such as the environment and the defence of basic rights (e.g. women's rights) where NGOs are actively involved.

85. The assessment of these various activities demonstrates both the successes and the limits of the NGOs' commitments and endeavour for reducing poverty.[47] Their specific advantages are now well known; they include: (i) effectiveness in reaching the poor and facilitating new awareness, skills and confidence among them; (ii) low-cost delivery of services; (iii) flexibility of response and adaptation to local conditions; (iv) ability to operate in remote areas. On the other hand, limitations have been identified in the following areas: (i)

---

[46]/ See UNDP, *Human Development Report 1993*, and annex table 1.

[47]/ For a presentation and an assessment of grassroot activities supported and/or implemented by NGOs, see in particular: Putting people first - *Voluntary organisations and thirld world organisations*, edited by Robin Poulton and Michael Harris, MacMillen Publishers, 1988 and, more recently, the results of a substantial Overseas Development Institute (ODI) research project which sets out to assess the impact of NGOs in poverty alleviating projects in different geographical and institutional settings; these results are published in ODI Working Papers nos. 49, 50, 51 and 52.

difficulties to increase substantially the living standards of the poor; (ii) insufficient consideration of the wider economic and social impact; (iii) problems met in making projects sustainable in the long run; (iv) difficulties to create the conditions required for replicating projects and to collaborate at appropriate levels with government services. These limitations could be significantly reduced through an evolution in the approach and the behaviour of the main agents concerned the NGOs themselves, the governments and the donor institutions along the following lines:

(a) Development NGOs see more and more the importance of going beyond individual projects and supporting people's movements: the latter combine economic and social activities with an empowerment process, thus making it possible both to achieve concrete results and to enhance local democracy. If they reach a critical mass and coordinate among themselves, they can even make their voice heard in national debates on development and poverty alleviation policies. As demonstrated by successful people's movements, their indirect impact could in this way prolong and enlarge their direct contribution at the grassroots level.

(b) For their part, governments are more and more called upon to create a political space and an enabling environment for NGOs' activities. This implies an appropriate regulatory framework ensuring the independence of NGOs, a process of decentralization and, more globally, a political climate which favours a dialogue between public entities and representatives of movements emerging from civil society.

(c) Donors, both bilateral and multilateral, also seek to build up a constructive relationship with NGOs. As mentioned earlier, they tend to increase the share of development assistance allocated to South NGOs, either directly or through North NGOs. In doing so, they are confronted with the following issues: (i) the identification of the most effective NGOs for alleviating poverty, i.e., those with the strongest potential for extension and replicability; (ii) avoidance of grants which do not correspond to the absorptive capacity of local NGOs and subsequently induce perverse effects at the grassroots level; (iii) the establishment of funding mechanisms and project criteria which are not too rigid in order to preserve the margin of autonomy and manoeuvre of local NGOs and people's movements; (iv) the dialogue with recipient countries on the delicate issue of funding NGO activities, often seen as competing with the financing of governmental projects.

86. Finally, a major dilemna needs to be addressed: on the one hand, neither donors' institutions nor governments in recipient countries can be involved directly in grassroot activities; on the other hand, NGOs affect a relatively small (but growing) number of people: the figure mentioned earlier, 250 million, is less than 20 per cent of the 1.3 billion people living in absolute poverty in developing countries and, by the end of the 1990s, optimistic assumptions suggest that they will reach nearly 30 per cent.[45] Therefore, a reduction of poverty going beyond this percentage calls for new forms of cooperation between NGOs, governments and donor institutions. The evolving behaviour and responsibilities of each of these agents, along the lines presented above, needs to be further

---

[45]/ See UNDP, *Human Development Report*, op.cit., p. 98.

thought out and developed in order to maximize complementarities and synergies with a view to reaching a degree of efficiency in programmes and policies which is commensurate with the magnitude of the poverty problem.

IV. CONCLUSIONS AND ISSUES FOR FURTHER DEBATE

87. Despite considerable progress in living standards in certain regions and indications that the overall incidence of poverty (as measured by the percentage of people below the poverty line in total population) might be falling, the absolute number of poor in the world is continuing to increase.[49] Poverty remains a persistent problem. Poverty alleviation and reduction is increasingly placed at the forefront of the concerns of the international community, being seen not only as an imperative to fight the ills connected with poverty and the threat to global security that it entails, but also in terms of global savings and factors of growth that would be derived from the active and equitable participation (instead of exclusion and burden) of the poor in the development process.

88. In terms of external assistance, these concerns are being translated into a reorientation of donors' policies. As indicated above, new guidelines have been designed (at the DAC level and at individual donor-country level) concerning basic principles and criteria of aid, and including guidelines in support of specific types of aid and sectors, geared to poverty alleviation and reduction. The World Bank has devised its own strategies and operational guidelines for poverty reduction. Other multilateral agencies, like IFAD, have done so too.

89. A salient feature of these new orientations is the increased emphasis laid in development cooperation on policy dialogue and aid coordination as they are considered indispensable instruments to enable donors to encourage appropriate policies. As regards anti-poverty programmes, it is being argued that donors will best contribute by helping recipient Governments to devise and implement programmes - these should be innovative, replicable and low-cost with a wide impact among poor people - rather than by implementing specific projects themselves. In particular, "funding and support of domestically run programmes which aim to improve grass-root self-reliance, provide credit and other resources, support institution-building and training at all levels can have a strategic catalytic function".[50] The switch from project to programme form has also the advantage of relieving a constraint on the absorptive capacity of the recipient country for projects.

90. Moreover, the importance of community participation in the design and implementation of anti-poverty programmes and projects is generally recognized by donors. Pursuing participatory approaches to poverty reduction within countries, with country counterparts, with donors and other official agencies,

---

[49]/ Recent trends in poverty are outlined in the World Bank's *Strategy to Reduce Poverty*, *op.cit.* pp.3 to 8. Estimates of the percentage of people below the poverty line are provided in UNDP's *Human Development Report 1993*, (tables 18 and 51) for individual developing countries and major groups. For the period 1977-1989 the estimate for the least developed countries is 70 per cent (72 per cent for rural population and 62 per cent for urban population) as compared with 32 per cent for all developing countries (36 per cent for rural population and 25 per cent for urban population).

[50]/ See OECD, DAC *Growth and Equity-Oriented Aid and Development Strategies*, (87) 19, p.11.

and with non-governmental organizations (NGOs) to ensure ownership of and sustained commitment to the poverty reduction strategy among all relevant partners, is a major preoccupation.[51]

91. These new orientations are based on experiences at all levels (macro, sectoral and micro). Although no general statement can be made about the relationship between aid and growth, or between growth and poverty reduction, it is generally recognized that aid can be instrumental indirectly in reducing poverty through growth, when certain conditions are met. To support this process, aid for investment in public equipment and productive activities, by contributing directly to growth, is as necessary as aid to social services.

92. As regards interventions directly aimed at poverty alleviation and reduction, conditions that underpin the success of anti-poverty policies, programmes and projects have been identified and examples of successes are provided, for example in the reports of the World Bank referred to in this note, and in other major reports such as *The State of World Rural Poverty* of IFAD, and *A World of Difference, a New Framework for Development Cooperation in the 1990s*, issued by the Dutch Foreign Ministry. All of these reports, while being broadly in line with the emerging strategy for poverty alleviation outlined in the introduction of this note, show the complexity of the tasks to implement it and the diversity of options in terms of specific supporting programmes and projects. Notwithstanding certain commonalities among country needs, the optimum mix of these programmes and projects appears to be very much country-specific.[52]

93. As an essential first step towards a country-specific approach, a comprehensive country poverty assessment would be required as well as a good understanding of anti-poverty policies and programmes being carried out within the country. The latter implies having appropriate officials, like sociologists and anthropologists, in aid agencies who can understand poverty issues and local conditions, and who would be able to communicate with local communities, NGOs and people's movements.

94. Moreover, as individual country situations and the variables of larger interdependencies are in a permanent flux, the findings in respect of successful experiences and their possible replicability must be carefully checked. Aid research, obviously, remains an on-going requirement.

95. In terms of effective provision of aid, a number of outstanding issues remain:

51/ See, The World Bank, "Implementing the World Bank's Strategy to Reduce Poverty", op.cit., p.ix.

52/ Examples of commonalities are, for instance, for countries where poverty is widespread, an emphasis to place on overall development strategies geared to broad-based growth (The Programme of Action for the Least Developed Countries for the 1990s (document UNCTAD/RDP/LDC/58) is a case in point), and an emphasis on specific social programmes and target approaches for countries where poverty is concentrated on specific population groups or sub-regions. Commonalities of approaches to the mix and choices of priorities in poverty alleviation policies and programmes are presented for the main regions (Africa, Asia and Latin America) in *A World of Difference, a New Framework of Development Cooperation*, op.cit., and for Africa in ECA, *Rural Progress*, Vol.XII, No.1, 1993 (in Section II on Poverty Alleviation and Structural Adjustment in Rural Africa - Some Reflections on Practical Measures).

(1) Increasing the overall volume of aid. This could be achieved by creating a new motivation for aid. For UNDP, "the new motive must be the war against poverty, based on the recognition that this is an investment not only in the development of poor nations but in the security of rich nations" [53] Raising awareness of all the dangers linked with the various manifestations of poverty - such as environmental degradation, disease, migration, drug abuse, terrorism - *inter alia* through the media, may be instrumental in obtaining enhanced public support for increased aid. Also, spreading information about the situation, the potential and the efforts of developing countries in respect of poverty alleviation, would help.

(2) Making the allocations of aid more equitable, better responding to the requirements of the poorest countries. Both the questions of country allocations and of earmarking these allocations in support of anti-poverty policies and programmes arise. Increased use of multilateral channels would contribute to this as multilateral aid is generally spread among a larger number of recipient countries, with programmes more geared to poor countries and countries with large numbers of poor people, than bilateral aid. Moreover, multilateral agencies, like the World Bank, UNDP, UNICEF, IFAD, FAO, WHO, UNESCO and ILO, have developed considerable expertise and institutional capacity to assist countries in carrying out anti-poverty policies, programmes and projects. Establishing indicative targets, in terms of sectoral allocations as well as allocations to country groups [54], and monitoring their implementation, would heighten pressure for improved aid allocations by donors.

(3) Improving policy dialogue and encouraging Governments to undertake anti-poverty policies and programmes. As the poor are generally excluded from the political arena where policies and measures determining the allocation of means of production and consumer goods are taken, there are Governments carrying out development policies and programmes that lack poverty focus. A main issue is how donors can effectively help in such cases, which are likely to coincide with the most severe and urgent poverty situations. NGOs could then constitute the alternative channels for reaching the poor.

(4) Deepening inquiry into recipient's perceptions and following a demand-driven and participatory approach. This may put considerable strain on aid agencies' capacity, entail high costs and be politically impracticable in certain cases. Support to the creation of participatory structures such as local government bodies and the provision of development education on a wide scale would help the poor anticipate their needs and requirements. NGOs may have to play a key intermediary and implementation role in order to operationalize the demand-driven approach. Research on how demand develops in a particular social and cultural environment and aid-related perceptions of recipients is also essential.

(5) Improving the quality of aid, in particular through increased provision of quick-disbursing programme aid, and local and recurrent cost financing in

---

[53]/ UNDP, *Human Development Report, 1993*, p.8.

[54]/ This has been done with the 0.7 per cent ODA/GNP target for the group of developing countries and the alternative set of ODA targets and commitments embodied in the *Programme of Action for the Least Developed Countries for the 1990s*.

order to meet the special requirements of social programmes. Sustainability in the provision of aid is also important.

(6) Improving aid coordination, both among donors and between them and the recipient Governments, local communities and NGOs. Up to now, only a few coordination meetings (such as the Consultative Group for Uganda in 1993) have devoted themselves to the consideration of poverty alleviation policies and strategies. In this connection, it would be essential that donors and recipients turn their attention to development strategies formulated with an appropriate emphasis on poverty alleviation, and a relatively long time-frame (i.e. going beyond structural adjustment); and that aid coordination be made a primary responsibility of the recipient rather than a donor-driven process. Aid coordination should foster links and coherence between interventions at the macro - and micro - levels. But strengthened coordination must not become a factor of more cumbersome procedures and slower delivery of assistance. Building up institutional and management capacities of recipient Governments to coordinate and implement assistance programmes and bringing a greater number of devleoping countries under the aid coordination process, is a primary necessity.

(7) Improving the information data bases in respect of both poverty indicators and aid flows. So far, detailed poverty assessments are available for only a limited number of developing countries. Moreover, there are at present statistical problems in measuring aid, not only at overall levels (if all donors are to be taken into account), but also aid to sectors, in particular those meant to contribute to poverty alleviation (the question of which sub-sectors should be considered arises here). As already indicated, the DAC creditor reporting system provides only an incomplete record of flows for DAC donors and this is due both to the way the system has been devised (as it was not originally geared to the above-mentioned concerns) and to the inadequate reporting of DAC members. Improvements are also required in respect of flows from financial institutions and NGOs' information.

Annex I

DONOR SUPPORT TO EDUCATION

In reviewing their roles and responsibilities in line with the outcome of the Jomtien Conference (see para. 60), DAC members focused on the following issues:

Donor-recipient policy dialogue

The donor-recipient policy dialogue should take into consideration both the macroeconomic and the inter-sectoral implications of basic education, including the need for long-term and broad-based support. Support for basic education thus first needs to be discussed and agreed in the context of a review of the national economic framework and public sector expenditure. Further, since many basic education programmes are in the non-formal sector and are under the authority of Ministries other than Education, basic education also needs to be addressed at a multi-sectoral level.

Structural adjustment and educational reform

Without the macro-economic discipline that comes with structural adjustment agreements, educational reform and increased financing may not be sustainable. However, some specific requirements under such agreements may unnecessarily limit investment in education, whereas most countries cannot further reduce total public expenditure on this sector which affects both social welfare and medium- and long-term economic growth. It is important, therefore, that structural adjustment agreements recognize the need for countries to commit new resources and reallocate existing resources toward investment sectors such as basic education. External resources may not necessarily have to be expended as education sector funds as long as increased spending for education is included in the overall adjustment package.

Financing of recurrent and local expenditures

Many donors traditionally prefer to finance only the foreign exchange share of investment costs. However, as most expenditures for basic education are recurrent and local expenditures, an adaptation of aid modalities to cover such costs would be called for in order to ensure the provision of effective assistance.

Long-term support for sectoral programmes rather than isolated projects

To be effective, the expansion of external assistance for basic education must be aligned to national development priorities: hence the need for comprehensive sectoral programmes based on national plans/basic education strategies which have been developed to the extent possible through wide consultation and broad-based participation, both within government and across the community. Such support may call for direct budgetary support (in view of the nature of basic education and the longevity of a programme approach).

Support to national capacity-building; support to decentralization, support to NGOs, etc

In targeting aid to the poorest countries, particular attention must be given to ensure that these countries have the management capacity to handle large increases in aid. Most of the development of national capacities needs to take place in the recipient country, for example through the "twinning" of institutions, strengthening support systems, and the use of regional networks and local experts.

Moreover, the role of central authorities is increasingly changing, from provision and control, to regulation and support, and basic education is not the exclusive responsibility of the public sector. In fact, basic education, especially the non-formal components such as literacy and community education, can often be better delivered and monitored by intermediaries. Examples of such organizations include community groups, NGOs, universities, religious associations, regional networks and foundations, and the private sector. Programme assistance for such groups requires flexibility, inter-sectoral collaboration, and complementary support. In this connection, there is considerable scope for donor support for the decentralization of decision-making, together with the participation of local administrators, community leaders, and parents in the delivery of basic education services. Mobilizing private sector resources, promoting community involvement and encouraging the participation of non-governmental organizations are also critical.

Monitoring and evaluation

In this respect, the following activities have been agreed upon by DAC members:

- In view of the apparent difficulty of identifying the allocation of funds to the basic education sub-sector, the DAC Working Group on Statistics in consultation with education experts and others in donor agencies has been invited to review arrangements for reporting the appropriate breakdown of this assistance;

- Donor policies and strategies in support of basic education ought to be examined in the ongoing DAC reviews of their Members' aid policies;

- Interested bilateral and multilateral organizations should pursue their efforts to establish a comprehensive monitoring and evaluation system of the "Education for All" goals, covering policies and strategies, financial flows, geographical allocations, the effectiveness of assistance and qualitative indicators of support to basic education;

- A meeting of the DAC could be held in 1994-95 to review progress made in donor support of basic education, including a review of aid policies, modalities and flows, and the effectiveness of coordination at all levels. Collaboration should be sought with other relevant bodies of the OECD.

Annex II

DONOR SUPPORT TO HEALTH

The DAC meeting on Strengthening Cooperation for Primary Health Care in line with the Alma Ata Conference (see paras. 64-65) considered the following issues:

The continuing validity of the primary health care concept

Donors' activities should reflect local needs and cover improvements in other sectors such as education, nutrition, family planning, water and sanitation. Assistance should be offered in a flexible manner, and over relatively long periods. Support should be focused on initiatives that are designed to reduce inequities in access to health care, that are oriented to needs of the poor, and that emphasize local-level activities which could be undertaken or controlled by the people themselves. Hence the need to support the development of systems for the provision of health care at all levels, through aid to national government, NGOs and international agencies.

The need for helping developing countries improve primary health care policies and programmes

Priority must be given to assistance for the strengthening of national capacities for the formulation and execution of coherent and comprehensive policies and plans for primary health care. This calls for continuous donor-recipient dialogue and coordination, as well as giving an adequate role to the private sector, including the NGOs, in providing primary health care services.

Strengthened aid coordination to ensure, *inter alia*, consistency of action among donor interested parties in the donor countries and in the recipient country

This calls for assistance to improve recipients' capacity to fulfil their responsibility to be at the centre of the coordination process. Bilateral donors may also need to strengthen their administrative and technical capacity in the health sector and in related areas to support the policy discussions at the country or regional level or in consultative groups and round tables.

Enhanced priorities for primary health care and related assistance

The level of ODA committed to health does not necessarily correspond to the priority given to this sector by donor countries. This calls for review and donor-recipient dialogue to facilitate required reallocation of resources within national health systems for primary health care.

The crucial issue of financial sustainability

Financial sustainability of primary health care depends on the availability of funds to meet its recurrent costs. Full use should be made of the private sector, the NGOs, women's groups and similar organizations to extend the provision of information and services to communities not yet adequately covered by health care. Experiences of schemes for cost recovery (e.g. use of income from sales of medicines to finance primary health care) warrant special attention.

The role of women in primary health care

Women have a crucial role to play - both as protectors of health in the household and as members of health care teams. They should be enabled to participate more fully in the planning process and in the development and implementation of primary health care.

The proper role of vertical approaches

Particular health problems may warrant vertical initiatives; these are useful to supplement actions undertaken both through health systems and through other social and economic sectors. However, they should be of limited duration and plans should be made from the start to ensure that they are ultimately integrated into the system as a whole.

Strengthening recipient countries' capacity to manage health systems

Management support is needed at central, district and local levels with particular emphasis on the district. Methods for primary health care management must be adapted to the national political, social and economic context and should be developed in partnership with a nation's government, its private sector and community groups, including traditional health systems. Training programmes should be seen in the light of total human resources development in the country. To provide such management assistance, donors may need to strengthen their own professional capacity for managing aid programmes in the health sector.

Improving data on health status

Such data should permit the analysis of health problems and the use of health services by different population groups. They should focus on the quality of services provided, processes of service delivery, relationships between different levels of the system, the felt needs of communities and changes in attitudes and behaviour at community and household levels. They should also indicate the resources needed to provide effective services and means by which these can be used most efficiently.

Annex III

DONOR SUPPORT TO MICRO-ENTERPRISE DEVELOPMENT

Below is an overview of some of the main agreements by DAC donors in respect of support to micro-enterprises.[55]

Enhancing of the role of recipient-country governments and improving the enabling environment

In this respect, donors resolved to recognize the important developmental role of the micro-enterprise sector and develop overall, coherent national strategies to promote micro-enterprise development.

Promoting grass-root participation

For this donors would have to: support the evolution of grassroots organizations of micro-entrepreneurs; work out appropriate forms of assistance which are in conformity with local socio-cultural conditions and adapted to the development needs of grassroots organizations; and promote partnerships between business associations of small and micro-entrepreneurs in developing and industrialized countries.

Recognizing the key role of appropriate local secondary intermediaries

Local secondary intermediaries which can reach large numbers of micro-enterprises and/or their self-help organizations with effective, lowest facilities for collecting savings and providing credit, technology and training services and, accordingly providing adequate institutional support to these intermediaries to strengthen management and control functions and deepen project design, implementation and evaluation capabilities, as well as financial resources in the measure that they can be absorbed/distributed by the chosen intermediary.

Improving donor-coordination and cooperation

This would mean focusing on harmonizing broad objectives and strategies and organizing information exchanges that would improve the effectiveness and reach of individual donors interventions.

Fostering financial systems and services

Donors broadly agreed that lending and savings technologies that imitate the efficient and flexible practices and procedures of informal financial markets stand a greater chance of being financially viable and reaching the vast numbers of potential small entrepreneurs. Three elements are considered to be critical for success in micro-enterprise lending programmes:

(i) building a mutual stake in the success of the project;

---

[55]/ For the full text of the conclusions of the DAC meeting on micro-enterprises, see OECD, *Development Cooperation, 1991 Report*, chapter V, Paris 1991, pp.100-107.

(ii) establishing a business-like approach to credit and savings activities;

(iii) reliance on character, group dynamics and the prospect of repeat loans to motivate repayments. Donors also agreed that interest rates to the final borrower should be positive and market-related, thus contributing to domestic resource mobilization, preventing capital erosion and ensuring recoupment of the transactions costs of credit delivery;

Promoting technical cooperation

Training and business advice services should focus increasingly on marketing, management and product development. Donors should aim to channel such technical assistance through the micro-entrepreneurs' own business associations and self-help groups, instead of directly or through governments or NGOs.

Strengthening linkages

Strengthening linkages vertical (i.e. suppliers, production, distribution, marketing, etc.) as well as between traditional and modern production systems, agriculture and industry, formal and informal sectors, and with the external sector (through the creation of export networks of micro-enterprises coordinated by a local or foreign entrepreneur) would help generate demand for products and services of micro-enterprises and better integrate them in the growth process.

Providing resources and services to women

Micro-enterprise development is especially important for women, as they have less access to jobs in the formal sector due, *inter alia*, to either a lack of training or competing demands of household maintenance and child care. Donors resolved to support, *inter alia*, efforts to encourage micro-enterprise assistance to women, and provision of on-site training and extension services.

Providing more conscious and informal interventions

Such interventions should be based on research, enhanced project evaluation feedback mechanisms and "lateral learning" networks.

Annex Table 1

ODA to developing countries: key totals and shares

	1988	1989	1990	1991	1992
1. ODA Receipts from all sources	Net disbursements				
Total in current $(billions)	47.5	48.6	52.6	57.4	58.3
of which:					
bilateral disbursements	36.4	36.3	39.2	41.3	41.3
multilateral disbursements	11.0	12.3	13.4	16.1	17.0
Percentage distribution: Total	100	100	100	100	100
of which:					
bilateral disbursements	71	75	75	72	71
multilateral disbursements	23	25	25	28	29
Total in constant 1991 $(billions)	54.2	56.0	54.5	57.4	54.9
Total (% change over previous year)	- 0.6	3.3	-2.7	5.3	-4.4
2. ODA from DAC countries					
Total in current $(billions)	47.0	45.7	52.9	56.7	60.8
of which:					
bilateral	31.9	32.9	37.1	41.3	41.3
to multilateral agencies	15.1	12.8	15.8	15.4	19.5
Percentage distribution: Total	100	100	100	100	100
of which:					
bilateral	68	72	70	73	68
to multilateral agencies	32	28	30	27	32
Total in constant 1991 $(billions)	53.7	52.9	54.8	56.7	57.3
Total (% change over previous year)	7.5	-1.5	3.5	3.2	1.1
Total (as percentage of DAC GNP)	0.34	0.32	0.33	0.33	0.33
3. Further information: grants from NGOs					
in current $(billions)	4.2	4.0	5.1	5.2	5.5
in constant 1991 $(billions)	4.9	4.6	5.2	5.2	5.2

Source: OECD, *Financial Resources for developing countries: 1992 and recent trends* (SG/PRESS(93)41).

Annex Table 2

Total DAC ODA allocations

Beneficiaries	Net disbursements in current $(billions)				Shares in total developing countries			
	1988	1989	1990	1991	1988	1989	1990	1991
Total ODA	43.0	45.2	52.1	59.0	100	100	100	100
of which: LICs	27.0	28.3	32.6	35.4	62.8	62.6	62.6	60.0
LDCs	13.2	13.5	15.3	15.3	30.7	29.9	29.4	25.9
Bilateral ODA	31.9	33.0	38.7	42.9	100	100	100	100
of which: LICs	18.5	18.7	22.2	23.4	58.0	56.7	57.4	54.5
LDCs	8.6	8.0	9.3	8.8	27.0	24.2	24.0	20.5
Multilateral ODA	11.1	12.3	13.4	16.1	100	100	100	100
of which: LICs	8.5	9.6	10.4	11.9	76.6	78.0	77.6	73.9
LDCs	4.6	5.5	6.1	6.5	41.4	44.7	45.5	40.4
For reference:								
Total external receipts from DAC	80.3	84.7	68.6	79.5	100	100	100	100
of which: LICs	37.5	42.9	40.2	43.6	46.7	50.6	58.6	54.8
LDCs	13.9	13.7	16.4	15.1	17.3	16.2	23.9	19.0

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries.*

Total = All developing countries as defined in source.
LICs = Low-income countries as defined in source.
LDCs = Least developed countries.

Annex Table 3

Total DAC ODF Commitments to social sectors and infrastructure (as % of total)

Main sectors		1987	1988	1989	1990	1991
1. Education	Total	2.8	2.8	3.2	3.5	4.9
	LICs	2.1	2.6	3.1	4.7	4.1
	LDCs	2.5	3.2	4.0	4.6	4.8
2. Health	Total	1.6	2.0	2.0	2.6	3.0
	LICs	2.0	1.9	2.3	2.7	2.9
	LDCs	2.9	2.6	2.6	2.9	6.6
3. Other social	Total	5.5	4.9	4.9	8.0	7.9
infrastructure	LICs	5.2	5.5	4.2	5.0	7.4
	LDCs	4.3	5.1	4.8	5.8	7.5
4. Water,	Total	4.0	3.1	3.7	4.4	4.0
sanitation,	LICs	3.9	2.8	4.7	4.4	4.4
sewage	LDCs	3.9	4.4	4.4	4.4	5.8
Total (1-4)	Total	13.9	12.7	13.9	18.5	19.7
	LICs	13.2	12.7	14.3	16.7	18.7
	LDCs	13.6	15.3	15.9	17.7	24.7
Memo item :						
Programme aid	Total	16.3	13.7	13.8	16.7	13.5
	LICs	14.7	10.2	9.8	13.9	10.9
	LDCs	16.3	13.9	9.5	9.2	12.1

Source : OECD/DAC Creditor Reporting System.

Total = All developing countries as defined in source.
LICs = Low-income countries as defined in source.
LDCs = Least developed countries.

Annex Table 4

Individual DAC donors' aid ratios to social sectors

Country	Total ODA given, 1991		Aid social allocation ratio (%) 1988/90	Aid social priority ratio (%) 1988/90	Aid human expenditure ratio (%) 1988/1990	Social priority aid as % of total aid 1988/90
	$ million	As % of GNP				
Japan	10945	0.32	11.5	32.0	0.012	3.7
United States	9402	0.17	15.9	52.4	0.014	8.3
Germany	6890	0.41	7.8	26.3	0.008	2.1
France	6530	0.54	12.0	30.4	0.020	3.6
Italy	3352	0.30	21.3	36.5	0.023	7.8
United Kingdom	3231	0.32	11.9	55.2	0.021	6.6
Canada	2604	0.45	19.7	46.5	0.041	9.2
Netherlands	2517	0.88	21.1	49.1	0.091	10.4
Sweden	2116	0.92	12.3	47.7	0.054	5.9
Denmark	1200	0.96	30.5	71.9	0.210	21.9
Norway	1170	1.14	24.9	71.9	0.204	17.9
Spain	1177	0.23	..	..	..	..
Australia	1050	0.38	14.6	15.7	0.009	2.3
Finland	930	0.76	34.3	39.7	0.103	13.6
Switzerland	863	0.36	34.8	48.3	0.061	16.8
Belgium	831	0.42	..	..	..	..
Austria	548	0.34	27.0	32.9	0.030	8.9
Portugal	213	0.31	..	..	..	..
New Zealand	100	0.25	..	..	..	17.0
Ireland	72	0.19	..	..	..	..
Total OECD	56700	0.33	15.1	43.2	0.021	6.5
All developing	45100	1.5	16.9	44.9	0.114	7.6
Least developed	14810	15.1	18.9	47.8	1.364	9.0

Source: UNDP, Human Development Report 1993 (tables 41 and 9).

Note: For the definition of the various ratios, see II.D.
Totals and ratios for total OECD and all developing countries differ substantially because the former relate to donor data with ODA referring to bilateral ODA plus contributions to multilateral agencies and donor GNP while the latter are based on ODA receipts (bilateral ODA plus multilateral ODA) and recipient's GNP.